SERVICE CONCESSION ARRANGEMENTS

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Agenda Item
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Date: August 29, 2011
Memo to: Members of the IPSASB
From: Joy Keenan
Subject: Service Concession Arrangements – Approval of Proposed IPSAS

Objectives

- To **approve** the proposed changes to ED 43 arising from the IPSASB's tentative decisions to address respondents' concerns;
- To **consider** whether re-exposure of some or all of the proposed IPSAS is necessary in light of IFAC's due process procedures for standards-setting boards.

Agenda Material

3.1 Draft IPSAS 32 (clean)

3.2 Itemized table of changes to ED 43

3.3 Draft IPSAS 32 (markup)

3.4 Is Re-exposure required?

February 2010 ED 43, *Service Concession Arrangements: Grantor*

Background

1. The IPSASB has reached tentative decisions during previous meetings on the following key issues:

   (a) The "mirror" approach was appropriate (November 2010). Thus, any of the specific requirements in IFRIC 12 related specifically to the asset recognition issue, are fully consistently worded in the proposed IPSAS.

(b) The credit arising on recognition of a service concession asset under the "grant of a right to the operator" model is not a performance obligation as proposed in ED 43, but is revenue received in advance and the treatment of this credit should be analogous to how such advance receipts are accounted for under IPSAS 9, *Revenue from Exchange Transactions* (March 2011).

(c) Amendments to the Application Guidance in ED 43 on capital work-in-progress (June 2011 – see Appendix 1 for extracts from the draft June 2011 IPSASB minutes).

(d) Wording changes related to a number of other issues (June 2011).

2. The Task Force met in August 2011 to discuss an initial draft that incorporated all the changes tentatively agreed to by the IPSASB at previous meetings, including the June 2011 meeting. A number of further changes were made in arriving at the proposed IPSAS 32 content presented in papers 3.1 and 3.3. Paper 3.2 provides details of all the changes made to ED 43 in drafting the proposed IPSAS. If Members are satisfied that the key issues have been resolved in the manner directed at previous meetings, the primary focus should be on reviewing the content of the proposed IPSAS with a view to voting for approval of the content.

3. At the June 2011 IPSASB meeting there was some preliminary discussion by the IPSASB as to whether proposed changes to ED 43 might warrant re-exposure of all of part of the ED. However, at that time, the criteria to be applied were not known, so staff was directed to develop an analysis of the alternatives. Staff has developed an analysis based on the IFAC *Due Process and Working Procedures* document (see the Appendix to Agenda Paper 3.4). That document requires two steps. First, the content of the proposed IPSAS is approved (see Key Issues, below). Once the content has been approved, the second step is to consider the issue of whether re-exposure is necessary (see Agenda Paper 3.4 for the analysis of this issue). Thus, while further discussion of the possible need for re-exposure will need to be undertaken at this meeting, it is important that the IPSASB agree on the content of the proposed IPSAS and undertake the formal approval process first. For that reason the agenda papers focus primarily on the main issues with respect to content and the revised draft IPSAS (in clean and markup form) along with the detailed summary of changes made to ED 43.

Key Issues

4. The IPSASB is asked to consider whether proposed amendments to ED 43 appropriately reflect the IPSASB's tentative decisions at past meetings on the following key issues:

(a) Transitional provisions;
(b) Treatment of the credit arising on recognition of a service concession asset under the "grant of a right to the operator" model (formerly referred to as "performance obligation" issue); and
(c) Capital-work-in-progress.

5. Transitional Provisions

5.1 *What did ED 43 say?*

The transitional provisions in ED 43 were based on those in IPSAS 31, *Intangible Assets*. In accordance with the default approach to transition in IPSAS 3, ED 43 proposed to require retrospective application. However, this proposed requirement was limited to those entities that had previously recognized service concession assets. Entities that had not previously recognized service concession assets were permitted, but not required to apply the proposed IPSAS retrospectively.

Paragraphs 29 and 30 of ED 43 are shown below.

Transition

29. **An entity that has previously recognized service concession assets and related liabilities, revenues, and expenses shall apply this Standard retrospectively in accordance with IPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors."**

30. **An entity that has not previously recognized service concession assets and related liabilities, revenues, and expenses and uses the accrual basis of accounting shall apply this Standard prospectively. However, retrospective application is permitted.**

5.2 *ED 43 Responses*

The feedback from the 33 respondents to ED 43 is summarized below in the extract from the analysis presented at the June 2011 IPSASB meeting.

Issue 8: Transitional Provisions and Effective Date

Overview of Respondents' Comments

197. Seven Respondents (R# 5, 8, 13, 15, 18, 26 and 33) commented on the transitional provisions and effective date paragraphs in ED 43.

198. Respondent 5 did not support the transition arrangements in ED 43 because the proposals would allow entities which have not capitalized service concession assets to continue to do so for existing service concession arrangements. Respondent 5 considers that prospective application should only be permitted in very limited circumstances.

199. Respondent 8 has similar concerns and expressed a view that the general requirements in IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* are appropriate for an entity that has not previously recognized service concession arrangements. Respondent 13 does not believe it is appropriate to require entities that have previously recognized service concession assets to restate their accounts and permit entities which have not previously recognized service concession assets to avoid restating their accounts.

200. Respondents 15, 26 and 33 recommend that the transitional provisions should be applied retrospectively for all entities, not just for those entities that have previously recognized service concession assets. Respondents 15 and 26 believe that this suggestion would enhance the comparability of the reporting of service concession arrangements. Additionally, Respondent 15 believes that the exemption from retrospective application in IPSAS 3 where it is impracticable to restate is sufficient guidance.

201. Respondent 33 considers that if there are practical concerns relating to retrospective restatement, the transitional provision in IFRIC 12 could be included in the finalized Standard as it gives further guidance as to what to do when it is impracticable for a particular service concession arrangement to be retrospectively restated. The transitional provision in paragraph 30 of IFRIC 12 relates to previously recognized assets rather than assets that have not previously been recognized

202. Respondent 18 asks that further clarification is given on the transitional provisions to ensure that they are clearly understood.

203. Related to the comments on transitional provisions, Respondent 13 considers that the effective date of the proposed Standard should be at least two years from the date of issue of the Standard in order for entities to have enough time to implement the proposed Standard and to have the information available to be able to restate their prior year comparatives.

5.3 *Proposed changes to ED 43*

Following its consideration of comments on ED 43 the IPSASB agreed with the respondents who noted the provisions in ED 43 would create different treatment for entities that had not previously recognized service concession assets. The IPSASB therefore decided that entities that had not previously recognized service concession assets should be required, as a minimum, to apply the proposed Standard from the beginning of the earliest period for which comparative information is presented in the financial statements. At the June 2011 IPSASB meeting, Members expressed general support for the proposed wording of the changes to the Transitional Provisions, and the related Application Guidance and Basis for Conclusions material.

The IPSASB's main reason for proposing this change was the feedback from respondents which suggested that prospective application for all of these entities was inappropriate, that IPSAS 3 already makes provision for cases where retrospective application is impracticable and that there was insufficient reason to impose more onerous requirements on entities that had already recognized service concession assets.

This amendment to ED 43 would mean that some service concession assets (and related liabilities) which would not have been recognized under the proposals in ED 43 would now be required to be recognized. Amounts involved are generally large; however, they would vary across jurisdictions (i.e., in some jurisdictions, there may be none while in others there may significant amounts involved). The transitional provisions for entities that had previously recognized service concession assets would remain the same.

Staff considers the revisions allow for better accountability for service concession assets (and related liabilities, revenues, and expenses) by requiring a consistent approach to application for all entities. The ED 43 transitional provisions were based on those for intangible assets set out in IPSAS 31. However, the revised approach recognizes that service concession assets are different from intangible assets in that they are held under long-term binding arrangements, which would ordinarily mean the information to initially recognize and measure the service concession asset is readily available. If the information is not available, IPSAS 3 does not require retrospective application. Thus, the new requirements would not require entities to create such information.

Staff notes that in the absence of an IPSAS dealing with service concession arrangements, some entities that had adopted IPSAS may have been following IFRIC 12. The revised transitional provisions in the proposed Standard more closely mirror those in IFRIC 12.

The proposed Standard contains the following amended transitional provisions:

Transition (see paragraphs AG66 – AG69)

35. **An entity that has previously recognized service concession assets and related liabilities, revenues, and expenses shall apply this Standard retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.**

36. **An entity that has not previously recognized service concession assets and related liabilities, revenues, and expenses and uses the accrual basis of accounting shall either:**

    (a) Apply this Standard retrospectively in accordance with IPSAS 3; or

    (b) Elect to recognize and measure service concession assets and related liabilities at the beginning of the earliest period for which comparative information is presented in the financial statements.

Transition (see paragraphs 35–36)

AG66. Where an entity has not previously recognized service concession assets, an entity may elect to use one of the following amounts, determined at the beginning of the earliest period for which comparative information is presented in the financial statements, as deemed cost:

    (a) For property, plant, and equipment, fair value, or depreciated replacement cost as a means of estimating fair value where there is no market (see IPSAS 17, paragraphs 46–48).

    (b) For intangible assets, fair value.

AG67. Depreciation is based on that deemed cost and starts from the date for which the entity established the deemed cost.

Use of Deemed Cost under the Financial Liability Model

AG68. Where an entity uses deemed cost under the financial liability model, it measures:

    (a) The financial liability using the remaining contractual cash flows specified in the binding arrangement, using IPSAS 29.

(b) The service concession asset using fair value (see paragraph 13).

Any difference between the value of the asset and the financial liability is recognised directly net assets/equity. If the entity chooses as its accounting policy the revaluation model in IPSAS 17 or IPSAS 31, this difference is included in any revaluation surplus.

Use of Deemed Cost under the Grant of a Right to the Operator Model

AG69. Where an entity uses deemed cost under the grant of a right to the operator model, it measures:

(a) The service concession asset at fair value (see paragraph 13).

(b) The liability represents the unearned portion of any revenue arising from the receipt of the service concession asset. This amount should be determined as the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.

As noted, this change only applies to an entity that has not previously recognized service concession assets. A requirement for retrospective application may result in additional work to determine and assign costs under both options in paragraph 35 of the proposed IPSAS where it is practicable. However, ED 43 permitted retrospective application, which some entities may have chosen to do. So, staff considers the change will not significantly affect all entities that had not previously recognized service concession assets in all cases. Staff expects that when an entity makes the election in paragraph 35(b) of the proposed IPSAS, using deemed cost will cost less and involve less work.

IPSAS 3 limits retrospective application to cases where it is practicable to determine both the period-specific and cumulative effect of the change. If it is not practicable to determine the period-specific effects, application is to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period. If it is not practicable to determine the cumulative effect of applying the new accounting policy to all prior periods as at the beginning of the current period, the new policy is applied prospectively from the earliest date practicable. The proposed revisions to ED 43 allow a choice between retrospective application as described above, and prospective application from the earliest period for which comparative information is presented in the financial statements (similar to the case described in IPSAS 3.32—see Appendix 2).

5.4 *Staff conclusion*

Staff considers the revised content of the transitional provisions to appropriately address ED 43 respondents' concerns and to be an improvement on the ED 43 proposal.

Question for the IPSASB:

Do you re-confirm that the proposed Transitional Provisions are appropriate?

6. Treatment of the credit arising on recognition of a service concession asset under the "grant of a right to the operator" model

6.1 *What did ED 43 say?*

ED 43 proposed that when the grantor recognizes a service concession asset, a liability shall also be recognized. The ED noted that this liability may be any combination of a financial liability and a performance obligation. ED 43 proposed that a financial liability occurs when the grantor has a determinable series of cash payments of cash or cash equivalents to make to the operator and a performance obligation occurs when the grantor compensates the operator by granting the operator the right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. ED 43 proposed that the grantor account for the performance obligation in accordance with IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

The journal entry at the time of recognizing the service concession asset, assuming that there is both a performance obligation and a financial liability, would be:

DR Service concession asset
CR Performance obligation
CR Financial liability

The subsequent journal entries to record the satisfaction of the performance obligation over the period in which the SCA is used to deliver services, would be:

DR Performance obligation
CR Revenue

6.2 *ED 43 Responses*

A number of respondents commented on this issue. The following summary of ED responses was initially presented at the March 2011 IPSASB meeting in Agenda Paper 8.1.

3. *Table 1: Summary of Respondents that Commented on Performance Obligation Issue*

Summary	Numbers	Respondents
Commented on performance obligation	16	• R# 1, 2, 3, 11, 14, 15, 18, 20, 25, 26, 27, 29, 30, 31, 32 and 33
Did not comment on performance obligation	17	• R# 4, 5, 6, 7, 8, 9, 10, 12, 13, 16, 17, 19, 21, 22, 23, 24, 28
Total Responses	**33**	

4. Approximately half of the 33 respondents commented on the performance obligation proposal in ED 43. All of these respondents commented that this aspect of the ED was unclear and needed further explanation.

5. Six respondents (R# 1, 11, 20, 25, 30 and 31) considered that the performance obligation did not meet the definition of a liability in IPSAS 1, *Presentation of Financial Statements*. Three respondents (R# 1, 26 and 31) consider that the grantor's performance obligation to provide access to the service concession asset to the grantor exists independently of any payment obligations. Another two respondents (R# 2 and 29) consider that the term "performance obligation" should be defined.
6. Two respondents (R# 20 and 25) suggest that a different approach could be taken, based on IFRIC 12 and its exchange notion. An extract from respondent 20 is set out below.

   "*We think, in particular, that an approach based on the fact that the operation between the grantor and the operator is basically an "exchange" might be analysed. In this approach, the exchange is performed between the grantor and the operator, as set out in IFRIC 12 in the "intangible asset model", which is the model to be used when the operator receives a right to charge user of the public service (vs. right to receive cash or another financial asset) in exchange of its services (e.g. constructing, operating, maintaining,.., an infrastructure). The operator receives from the grantor a right to charge users of the public service which is an intangible asset.*"
7. Similarly, respondent 30 considered that the "'performance obligation' is no financial liability (as no cash outflow is expected). We believe it is a deferred income and should be accounted in accordance with IPSAS 9 *Revenue from Exchange Transactions*."

Several respondents to ED 43 indicated issues with respect to treatment of the credit when the operator is compensated, in part or entirely, by the grant of a right to earn revenues from third parties, either from the service concession asset or from another revenue-generating asset.

Staff notes that some respondents suggested that the credit be treated as net assets/equity. The IPSASB has previously considered, and rejected that proposal. The rationale for the IPSASB's decisions regarding the amendment, and other alternatives considered in developing the final IPSAS, are explained in the Basis for Conclusions.

6.3 *Proposed change to ED 43*

In response to these comments the IPSASB reconsidered the treatment of the credit where the grantor compensates the operator by the grant of a right to charge users (the "grant of a right to the operator model"). The IPSASB has previously tentatively agreed that:

(a) The grantor does not have a long-term liability as defined in IPSAS 19;

(b) The credit (in relation to the grant of a right) ultimately represents revenue. The IPSAS 9 treatment of exchanges of dissimilar assets can be used, by analogy, to support the treatment of the credit as a liability until the criteria for recognition of revenue have been satisfied; and

(c) The credit does not represent a direct increase in the grantor's net assets/equity.

A number of changes were made from ED 43 throughout the proposed IPSAS to explain this change in approach and to provide guidance on it.

The journal entry at the time of recognizing the service concession asset, assuming that there is both a performance obligation and a financial liability, would be:

DR Service concession asset
CR Revenue received in advance
CR Financial liability

The subsequent journal entries to record the recognition of revenue over the period in which the SCA is used to deliver services, would be:

DR Revenue received in advance
CR Revenue

6.4 *Staff conclusion*

Staff considers the revised content on this issue to appropriately address ED 43 respondents' concerns and to be an improvement on the ED 43 proposal.

Question for the IPSASB:

Do you re-confirm that the treatment of the "grant of a right to the operator" approach is appropriate?

7. Capital Work-in-Progress

7.1 *What did ED 43 say?*

ED 43 contained a proposal to "mirror" IFRIC 12. Further, it contained a principle that IPSAS 17, *Property, Plant, and Equipment* applies to the accounting for service concession assets once it is determined the asset meets the control criteria and should be recognized.

ED 43 also contained the following authoritative Application Guidance that was intended to clarify application of those underlying principles in cases when a service concession asset is constructed or developed over several years.

Constructed or Developed Asset

AG20. IPSAS 17 or IPSAS 31, as appropriate, set out the criteria for the timing of initial recognition of a service concession asset. In the case of property, plant and equipment, where the operator bears the construction risk, the timing of initial recognition of the service concession asset by the grantor will normally be when the asset is placed into use. Where the grantor bears the construction risk, the recognition criteria may be met during the construction period, and, if so, the grantor will normally recognize the service concession asset (and related liability) during that period. The recognition criteria in IPSAS 31 also require that the initial cost or fair value of the asset can be measured reliably for an intangible asset to be recognized. Accordingly, to meet the recognition criteria in IPSAS 17 or IPSAS 31, as appropriate, the grantor must have reliable information about the cost or fair value of the asset during its construction or development. In some cases, the grantor may incur an obligation during construction or development before the constructed or developed asset meets the conditions in paragraph 10 (or paragraph 11 for a whole-of-life asset) for recognition as a service concession asset.

7.2 ***ED 43 Responses***

A number of respondents commented on this issue. The following summary of ED responses was initially presented at the June 2011 IPSASB meeting in Agenda Paper 4.1.

4C. Capital Work-in-Progress

Overview of Respondents' Comments

105. Eight respondents (R#1, 9, 12, 15, 20, 26, 30, and 32) commented on the proposed guidance on how to account for assets that would be recognized under ED 43 while the assets are under construction.

106. Respondents 1 and 9 note that under accrual accounting principles, the grantor should recognize the asset and liability progressively as it is constructed rather than when it is complete, regardless of which party bears construction risk because a service concession asset is, by definition, grantor controlled and it is being constructed for the grantor pursuant to the contractual requirements of the service concession arrangement.

107. Respondent 9 further notes that the treatment in AG20 does not mirror the treatment in IFRIC 12, the basis on which the Board agreed to prepare this standard. Under IFRIC 12 the operator recognizes a growing receivable as the service concession asset is constructed. Under AG20 the "mirror" payable will not be recognized until the asset is placed into use. A further consequence is that the capital work-in-progress is not recognized by any party while the asset is being constructed.

108. Respondents 12 and 15 indicate that since the ED is dealing with contractual arrangements (in some cases quite similar to lease agreements), it may be useful to provide explicit guidance on whether the assessment of the recognition criteria is to be performed on inception of the agreement, or continuously throughout the term of the arrangement (at each reporting period end), or at the termination/expiry of the arrangement.

109. Respondent 20 considers that the guidance in paragraph AG20 is not consistent with the control approach set out by the Exposure Draft and the asset recognition criteria have to be consistent. As a consequence, the Respondent suggests that the application guidance be corrected in order to propose a control-based approach for the recognition of the concession asset during the construction phase.

110. Respondents 26, 30 and 32 questioned whether construction risk is a factor that should be considered in determining whether to recognize a service concession asset as it is being constructed or developed. They note that the service concession asset and the related liability should be accrued throughout the construction or development period.

7.3 *Proposed change to ED 43*

In considering respondents' comments, the IPSASB agreed that the guidance in paragraph AG20 creates a conflict with the underlying principle of mirroring IFRIC 12 and the requirement to follow IPSAS 17 or IPSAS 31, as appropriate, to account for service concession assets. In response to these comments, the IPSASB reconsidered the guidance in paragraph AG20 and tentatively agreed to make the following changes to clarify the intent of when to recognize a constructed or developed asset (and related liability) at its June 2011 meeting.

Constructed or Developed Asset

AG20. IPSAS 17 or IPSAS 31, as appropriate, set out the criteria for ~~the timing of initial recognition of~~when a service concession asset should be recognized. Both IPSAS 17 and IPSAS 31 require that an asset shall be recognized if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

~~(a)~~(b) The cost or fair value of the item can be measured reliably.

AG21. Those criteria, together with the specific terms and conditions of the binding arrangement, need to be considered in determining whether to recognize the service concession asset during the period in which the asset is constructed or developed. For both property, plant, and equipment and intangible assets, the recognition criteria may be met during the construction or development period, and, if so, the grantor will normally recognize the service concession asset during that period.

AG22. The first recognition criterion requires the flow of economic benefits or service potential to the entity. From the grantor's point of view, the primary purpose of a service concession asset is to provide service potential on behalf of the public sector entity. Similar to an asset the grantor constructs or develops for its own use, the grantor would assess, at the time the costs of construction or development are incurred, the terms of the binding arrangement to determine whether the service potential of the service concession asset would flow to the grantor at that time.

AG23. The second recognition criterion requires that the initial cost or fair value of the asset can be measured reliably. Accordingly, to meet the recognition criteria in IPSAS 17 or IPSAS 31, as appropriate, the grantor must have reliable information about the cost or fair value of the asset during its construction or development. For example, if the service concession arrangement requires the operator to provide the grantor with progress reports during the asset's construction or development, the costs incurred may be measurable, and would therefore met the recognition principle in IPSAS 17 for constructed assets or in IPSAS 31 for developed assets. Also, where the grantor has little ability to avoid accepting an asset constructed or developed to meet the specifications of the contract, or a similar binding arrangement, the costs are recognized as progress is made towards completion of the asset. Thus, the grantor recognizes a work-in-progress (WIP) service concession asset and an associated accruing liability.

~~In some cases, the grantor may incur an obligation during construction or development before the constructed or developed asset meets the conditions in paragraph 10 (or paragraph 11 for a whole of life asset) for recognition as a service concession asset.~~

7.4 *Staff conclusion*

Staff considers the revised content on this issue to appropriately address ED 43 respondents' concerns and to be an improvement on the ED 43 proposal.

Question for the IPSASB:

Do you re-confirm that the guidance provided for capital work-in-progress is appropriate?

Staff Conclusion on Content of the Proposed IPSAS

8. Staff considers there are no further changes required to the content of the proposed IPSAS to address issues raised by ED 43 respondents. The issues have been deliberated at three previous IPSASB meetings and staff is of the view that the proposed IPSAS appropriately addresses the issues raised and reflects the IPASB's tentative decisions to date on those issues.

9. Staff therefore recommends the IPSASB vote for approval of the content as presented in Agenda Paper 3.2.

Voting requirements:

The IPSASB's Terms of Reference require an affirmative vote of at least two-thirds of the voting rights of the IPSASB is necessary to approve IPSASs.

Appendix 1 – Extract from June 2011 IPSASB Meeting Minutes

4. SERVICE CONCESSION ARRANGEMENTS

Discuss issues (Agenda Item 4)

The Chair noted that, subsequent to the March 2011 IPSASB meeting, it was decided to reconstitute the TBG as a Task Force (TF), with David Bean as the TF Chair. In addition, Marie-Pierre Cordier and Paul Mason were added as TF members.

The TF Chair provided an overview of the process followed by the Task Force in developing the issues paper. He noted that the approach taken was to respond to the issues based on previous decisions tentatively taken by the IPSASB.

Staff then led the IPSASB through each of the remaining issues raised by respondents to ED 43 that had not been previously considered by the IPSASB.

Issue 1 – Scope

The IPSASB agreed with the proposed wording changes to the draft Standard and Basis for Conclusions for issue 1A – *Arrangements outside the scope of ED 43*.

Members also agreed that no change was required to the proposed Standard for Issue 1B – Scope Differences from IFRIC 12 regarding the type of assets required. However, staff was directed to document in the Basis for Conclusions the rationale for why the proposed Standard does not specify the types of assets covered.

For Issue 1C – *Operator is a Public Sector Entity/No Guidance for GBEs*, the IPSASB agreed to add wording to paragraph BC6 to clarify that the operator could be a GBE.

For Issue 1D – *Relation to IPSAS 13*, it was agreed that the proposed amendment at paragraph 34 was not required because the Consequential Amendments in ED 43 already addressed this issue.

Issue 2 – Definitions

Some Members agreed with the proposal to add a definitions section to the draft Standard, consistent with other IPSASs. They noted that this was not an interpretation, like IFRIC 12, but a Standard. Others, however, questioned whether this would be a departure from IFRIC 12. One Member noted this issue illustrates the limitations of a strict 'mirror' approach. It was pointed out that the main focus of 'mirroring' IFRIC 12 was the control criteria and accounting to ensure that assets would not go unrecognized by either the operator or the grantor and that assets would not be double counted. It was not meant to be related solely to the format of the proposed Standard.

The IPSASB agreed to replace the terminology in ED 43 with a Definitions section consistent with other IPSASs. One Member questioned whether a definition section ought to be located in an Appendix, as is now done for new IFRSs. The Technical Director pointed out, however, that in its discussion on the form and content of IPSASs at its June 2010 meeting, the IPSASB had decided to leave the definitions in the body of IPSASs.

With respect to specific definitions, some Members suggested deleting the definition of 'binding arrangement' given that the term is used in other IPSASs with slightly different meanings. It was noted that the definitions presented could be limited to terms introduced in or used with a different meaning in this Standard. Members also agreed to retain the proposed definition of a 'binding arrangement'. However, the definition should include additional wording that strictly limits this definition to the proposed Standard to avoid conflict with use of the term in other IPSASs.

The IPSASB agreed to delete paragraph 3 of ED 43, but to incorporate the reference to 'constructs or develops' the asset in the definition.

Issue 3 – Control criteria

For Issue 3A – Regulates, the IPSASB agreed with the wording changes proposed by staff at paragraph 62; however, the proposed final sentence of BCXX (following paragraph 62 of the Issues Paper) should be deleted, as the proposed Standard does not need to refer to the private sector operator.

The IPSASB agreed no changes are required for Issue 3B – Residual *Interest/Whole-of-Life Assets*.

Issue 4 – Recognition and measurement of the service concession asset

A number of issues were identified by respondents related to the recognition and measurement of the service concession asset.

Members agreed to the following changes to ED 43:

- The wording changes proposed in respect of Issue 4A – *Existing Assets of the Grantor used in the SCA*;
- In paragraph 8(b) (following paragraph 99 of the Issues Paper), add 'uses';
- In paragraph AGXX (following paragraph 99 of the Issues Paper), delete 'rather than recognized under this Standard';
- Explain in the Basis for Conclusions why no change is required to ED 43 for Issue 4B – *Existing Assets of the Grantor Given to the Operator and not used in the Service Concession Arrangement*;
- Ensure the link between Issue 4B and the liability/revenue treatment are noted (i.e., the asset is consideration which reduces the liability);
- Clarify paragraph AG40 (paragraph 102 of the Issues Paper) to address two scenarios – a permanent transfer which is part of compensation which reduces the grantor's liability upfront and results in the grantor derecognizing the asset; and provision of access to an asset during the SCA;
- In respect of Issue 4C – *Capital work-in-progress*, the IPSASB supported the proposed changes. The Board noted that the changes resulted in a clearer answer and provided a better mirror image of IFRIC 12;

- In respect of Issue 4D – *Initial measurement at fair value*, Members agreed that guidance was needed to clarify the use and meaning of fair value for initial measurement (in paragraph AGXX following paragraph 99 of the Issues Paper) and instructed staff to expand the rationale (i.e., fair value is not revaluation (especially in relation to existing assets of the grantor) but is the initial cost of the asset; and
- The proposed draft wording of Application Guidance dealing with depreciation and impairment following paragraphs 151 and 155 of the Issues Paper should be combined into a section dealing with subsequent measurement.

Issue 5 – Treatment of the credit

The majority of Members reaffirmed support for the 'grant of a right to the operator' model for cases when some portion or all of the compensation to the operator is in the form of granting the operator the right to earn revenues from the service concession asset. One Member indicated, however, that the Basis for Conclusions needed to better explain the IPSASB's rationale for adopting this approach. It was also noted that the last proposed BCXX paragraph (following paragraph 165 of the Issues Paper needs to clearly distinguish between new assets and existing assets of the grantor (reclassification) used in the SCA.

Members also agreed that it is important to consider whether the deferred revenue arising in this model meets the existing definition of a liability as well as the proposed definition of a liability set out in the Conceptual Framework Phase 2 Consultation Paper (CF-CP2). It was noted that there may be a need to revisit this issue when the Conceptual Framework is complete.

Members also agreed that the Basis for Conclusions should indicated that the IPSASB had considered the proposed IASB approach to treat the credit as an offset (contra) to the asset. It was noted that this approach does not satisfy the need for accountability in the public sector. It was also noted that this may reflect an inappropriate position where the service concession assets are not remeasured, but are reported at historical cost subsequent to initial measurement.

A number of suggestions were made related to the proposed wording following paragraph 165 of the Issues Paper:

- Refer to IPSAS 28-30 by analogy, as they deal with contracts which are narrower than binding arrangements;
- Move paragraph 20B before paragraph 19;
- Add 'assets' to paragraph 20D;
- Expand wording of paragraph 20G to include the value of any other consideration received or given;
- Change to 'net assets/equity' throughout the proposed wording; and
- The discussion in the Basis for Conclusions setting out the rationale for why the credit is not net assets/equity (but rather revenue)need to be expanded to address all possible components of equity in IPSAS 1. In particular, it should explain that IPSAS 1 highlights four components of equity and it should provide an analysis of each of the four types to support the proposed conclusion that the credit is not a component of net assets/equity.

Members agreed with the proposals for Issues 5B – *Finance Charge/Discount Rate*, and 5C – *Use of the Term 'Service Portion of the Payment'*.

Issue 6 – Recognition and measurement of revenue arising from the liability related to the grant of a right to the operator model

A Member expressed concern with the proposed deletion of the reference to IPSAS 9 in paragraph 24. Other Members noted that at the March 2011 IPSASB meeting, the IPSASB agreed that none of the scenarios for revenue recognition in IPSAS 9 were directly applicable to SCAs. It was further noted that IPSAS 9 did not address all possible revenue recognition scenarios, including the situation arising in SCAs. The proposal to amend ED 43 for the recognition of revenue arising under the grant of a right to the operator model is analogous to the recognition of revenue under IPSAS 9. It was noted that the reference to 'in accordance with' in the second BCXX paragraph following paragraph 184 of the Issues Paper should be changed to 'by analogy to' to provide greater clarity. A majority of the IPSASB supported this position.

It was also suggested that revenue recognition for SCAs should be specifically scoped out of IPSAS 9. A majority of the IPSASB supported this position.

Members supported the proposed wording changes to ED 43, but noted that they may require further refinement as the proposed IPSAS is drafted.

Issue 7 – Presentation and disclosure

Members agreed with the proposal to add new paragraph 27A (paragraph 196 of the Issues Paper).

Issue 8 – Transitional provisions/effective date

Members expressed general support for the proposed amendment to require either retrospective application or elect to measure service concession assets at the beginning of the earliest period for which comparative information is available.

It was noted that under the transitional provisions set out in ED 43 that require prospective application, significant assets may not be recognized under existing arrangements covering a long period. The proposed amendment that permits retrospective application is practical and achieves the objective of accountability for such assets.

The IPSASB considered a suggestion that the Standard could be issued while at the same time exposing the proposals for transition. It was noted that the Standard could have a long implementation period such that the ED would be final before the effective date. It was noted that it did not seem appropriate to issue a Standard and immediately expose a change to it. On the other hand, it was pointed out that there is a need for the Standard, and it would be useful to have it issued.

Other alternatives suggested included doing nothing with respect to the Standard and re-exposing only the transitional provisions, and providing a staff draft on the web site.

Staff was directed to prepare an analysis of the alternatives for the IPSASB to consider at its September 2011 meeting.

Issue 9 – Move Application Guidance to body of the Standard

Members did not agree with the proposal to add paragraph 9A. They noted the relevant references are included in the proposed Standard, even if the Introduction section is deleted as proposed under ED 45.

Issue 10 – Basis for Conclusions: Rationale for adopting the control-based approach

Members were generally supportive of the explanations in the Basis for Conclusions documenting the IPSASB's decision to adopt the control-based approach in IFRIC 12.

Some suggestions were made for clarification:

- A Member questioned whether the United Nations System of National Accounts (SNA) should be mentioned in the proposed new BCXX paragraphs. The following wording was suggested from the European System of Accounts (ESA 95):
  > "When a government is exposed to most of the risks and rewards of ownership during the period of exploitation, the infrastructure is recorded in the government's balance sheet."
- Another Member asked that paragraphs BCXX on page 12 and BCXX on page 33 should be checked to avoid duplication.
- It was noted that on page 54, the proposed paragraph BCXX at the top of the page doesn't seem to mirror IFRIC 12.

Staff agreed to consider these matters when drafting the proposed Standard.

A Member had a general comment on the content of the proposed changes to the Basis for Conclusions compared with that in other IPSASs, and questioned whether this was a new format. In particular, he noted that there were too many references to ED respondents and the IPSASB's rationale for making or not making changes to address respondents' concerns, which impeded readability. Other Members noted that there had been few public sector specific standards issued to date, and the content of a Basis for Conclusions for an IFRS-converged IPSAS would generally not include comments related to the underlying IAS. Other Members noted that the proposed approach provides greater transparency of the IPSASB's due process on this controversial project.

The majority of the IPSASB supported the approach proposed by staff, which included explanations of significant changes made from ED 43 in the Basis for Conclusions.

Need for Re-exposure

Members discussed a possible need for re-exposure of ED 43. It was generally noted that re-exposure would be considered when a more onerous requirement was introduced in response to comments received on the ED. Another consideration for re-exposure is whether any new information would be received on re-exposure.

Next Steps

Staff was directed to prepare a draft Standard, along with an analysis of the need for re-exposure of ED 43, for the September 2011 IPSASB meeting.

Appendix 2 – Extract from IPSAS 3

Retrospective Application

27. **Subject to paragraph 28, when a change in accounting policy is applied retrospectively in accordance with paragraph 24(a) or (b), the entity shall adjust the opening balance of each affected component of net assets/equity for the earliest period presented, and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.**

Limitations on Retrospective Application

28. **When retrospective application is required by paragraph 24(a) or (b), a change in accounting policy shall be applied retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change.**

29. **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of net assets/equity for that period.**

30. **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity shall adjust the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**

31. When an entity applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts in both the opening and closing statement of financial positions for that period. The amount of the resulting adjustment relating to periods before those presented in the financial statements is made to the opening balance of each affected component of net assets/equity of the earliest prior period presented. Usually the adjustment is made to accumulated surpluses or deficits. However, the adjustment may be made to another component of net assets/equity (for example, to comply with an IPSAS). Any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.

32. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 30, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities, and net assets/equity arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 55–58 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

International Public Sector Accounting Standards Board

IPSAS 32
Month 20YY

Service Concession Arrangements: Grantor



International Federation of Accountants

IPSAS 32—SERVICE CONCESSION ARRANGEMENTS: GRANTOR

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) sets out the accounting requirements of the grantor in a service concession arrangement. It is adapted from Interpretation 12 (IFRIC 12), *Service Concession Arrangements*, developed by the International Financial Reporting Interpretations Committee and published by the International Accounting Standards Board (IASB). IFRIC 12 sets out the accounting requirements of the operator in a service concession arrangement. This IPSAS also contains extracts from the Interpretation 29 (SIC-29), *Service Concession Arrangements: Disclosures*, developed by the Standing Interpretations Committee and published by the IASB. Extracts from IFRIC 12 and SIC-29 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS) Foundation.

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Moved text is also annotated[JK1].

Month 20YY

IPSAS 32—SERVICE CONCESSION ARRANGEMENTS: GRANTOR

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International Public Sector Accounting Standard (IPSAS) XX, *Service Concession Arrangements: Grantor* is set out in paragraphs 1–37. All the paragraphs have equal authority. IPSAS XX should be read in the context of its objective, the Basis for Conclusions, and the "Preface to International Public Sector Accounting Standards." IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

Scope (see paragraphs AG1–AG2)

2. **A grantor that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for service concession arrangements.**

3. **This Standard applies to all public sector entities other than Government Business Enterprises.**

4. The *Preface to International Public Sector Accounting Standards* issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.

5. Arrangements within the scope of this Standard involve the operator providing public services related to the service concession asset on behalf of the grantor. Arrangements outside the scope of this Standard are those that do not involve the delivery of public services and arrangements that involve service and management components where the asset is not controlled by the grantor (e.g., outsourcing, service contracts, or privatization).

6. This Standard applies to the following assets used for the purpose of a service concession arrangement,:

   (a) Assets that the operator constructs or develops, or acquires from a third party;

   (b) Existing assets of the operator which the operator uses; and

   (c) Existing assets of the grantor (including any upgrades to the asset) to which the grantor gives the operator access.

7. This Standard does not specify the accounting by operators (see the relevant international or national accounting standard dealing with accounting for service concession arrangements by operators).

Definitions (see paragraphs AG3–AG4)

8. **The following terms are used in this Standard with the meanings specified:**

   A binding arrangement, for the purposes of this Standard, describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.

   A grantor is the entity that grants the service concession to the operator.

   An operator is the entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.

   A service concession arrangement is a binding arrangement between a grantor and an operator in which:

(a) **The operator uses the service concession asset to provide a public service on behalf of the grantor or upgrades an existing asset and operates the asset for a specified period of time; and**

(b) **The operator is compensated for its services over the period of the service concession arrangement.**

A service concession asset is an asset used to provide public services in a service concession arrangement that:

(a) **Is provided by the operator which:**

(i) The operator constructs, develops, or acquires from a third party; or

(ii) Is an existing asset of the operator; or

(b) **Is provided by the grantor which:**

(i) Is an existing asset of the grantor; or

(ii) Is an upgrade to an existing asset of the grantor.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Recognition and Measurement of a Service Concession Asset (see paragraphs AG5–AG35)

9. **The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:**

(a) **The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and**

(b) **The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement.**

10. **This Standard applies to an asset used in a service concession arrangement for its entire useful life (a "whole-of-life" asset) if the condition in paragraph 9(a) is met.**

11. **The grantor shall initially measure the service concession asset recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) at its fair value.**

12. **After initial recognition, a service concession asset shall be accounted for as a separate class of assets in accordance with IPSAS 17, *Property, Plant, and Equipment,* or IPSAS 31, *Intangible Assets,* as appropriate.**

13. **Where an existing asset of the grantor meets the conditions specified in paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor shall reclassify the existing asset as a service concession asset. The reclassified service concession asset shall continue to be accounted for as a separate class of assets in accordance with IPSAS 17 or IPSAS 31, as appropriate.**

14. In exchange for the service concession asset, the grantor may compensate the operator for the service concession asset by any combination of:

    (a) Making payments to the operator (the "financial liability" model);

    (b) Compensating the operator by other means such as (the "grant of a right to the operator" model):

        (i) Granting the operator the right to earn revenue from third-party users of the service concession asset; or

        (ii) Granting the operator access to another revenue-generating asset for the operator's use (e.g., a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or a private parking facility adjacent to a public facility).

Recognition and Measurement of Liabilities (see paragraphs AG36–AG51)

15. **When the grantor recognizes a service concession asset in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor shall also recognize a liability.**

16. **The liability recognized in accordance with paragraph 15 shall be initially measured at the same amount as the service concession asset measured in accordance with paragraph 11, adjusted by the amount of any cash or cash equivalents from the grantor to the operator, or by the operator to the grantor.**

17. The nature of the liability recognized is based on the nature of the consideration exchanged between the grantor and the operator. The nature of the consideration given by the grantor to the operator is determined by reference to the terms of the binding arrangement and, when relevant, contract law.

Financial Liability Model (see paragraphs AG37– AG47)

18. **When the grantor has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the grantor shall account for the liability recognized in accordance with paragraph 15 as a financial liability.**

19. The grantor has an unconditional obligation to pay cash if it has guaranteed to pay the operator:

    (a) Specified or determinable amounts; or

(b) The shortfall, if any, between amounts received by the operator from users of the public service and any specified or determinable amounts referred to in paragraph 19(a), even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.

20. IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures* apply to the financial liability recognized under paragraph 15.

21. **The grantor shall allocate the payments to the operator and account for them according to their substance as a reduction in the liability recognized in paragraph 15, a finance charge, and a service component.**

22. **The finance charge and service components of a service concession arrangement determined in accordance with paragraph 21 shall be accounted for as expenses.**

23. **Where the amounts are separately identifiable the cost of the service component shall be allocated by reference to the relative fair values of the service concession asset and the services received. Where the amounts are not separately identifiable, each component is determined using estimation techniques.**

Grant of a Right to the Operator Model (see paragraphs AG48– AG50)

24. **Where the grantor recognizes a service concession asset and, does not have an unconditional obligation to pay cash or another financial asset to the operator, the grantor shall recognize a liability. The liability represents the unearned portion of the revenue that arises from the exchange of assets between the grantor and the operator.**

25. **The grantor shall recognize revenue and reduce the liability recognized in paragraph 24 in accordance with the economic substance of the service concession arrangement.**

Dividing the Arrangement (see paragraph AG51)

26. **If the grantor pays for the construction, development, acquisition, or upgrade services partly by a financial liability and partly by the grant of a right to the operator, it is necessary to account separately for each liability. The amount initially recognized for the total liability shall be recognized initially at the same amount as the amount specified in paragraph 16.**

27. **The grantor shall subsequently account for each liability in accordance with paragraphs 18–25.**

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets

(see paragraphs AG52–AG55)

28. **The grantor shall account for other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 28, IPSAS 29, and IPSAS 30.**

Other Revenues (see paragraphs AG56–AG65)

29. **The grantor shall account for revenues from a service concession arrangement, other than those specified in paragraphs 24–25, in accordance with IPSAS 9*, Revenue from Exchange Transactions*.**

Presentation and Disclosure (see paragraphs AG66–AG67)

30. **The grantor shall present information in accordance with IPSAS 1.**

31. **All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. A grantor shall disclose the following information in respect of service concession arrangements in each reporting period:**

    (a) **A description of the arrangement;**

    (b) **Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);**

    (c) **The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:**

        (i) **Rights to use specified assets;**

        (ii) **Rights to expect the operator to provide specified services in relation to the service concession arrangement;**

        (iii) **Service concession assets recognized as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;**

        (iv) **Rights to receive specified assets at the end of the service concession arrangement;**

        (v) **Renewal and termination options;**

        (vi) **Other rights and obligations (e.g., major overhaul of the service concession asset); and**

        (vii) **Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and**

    (d) **Changes in the arrangement occurring during the reporting period.**

32. The disclosures required in accordance with paragraph 33 are provided individually for each material service concession arrangement or in aggregate for each class of service concession arrangements. A class is a grouping of service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications or water treatment services). This disclosure by class of service concession asset is in addition to that required in paragraph 12 by class of asset. For example, for the purposes of paragraph 12 a toll bridge may be grouped with other bridges. For the purposes of this paragraph, the toll bridge may be grouped with toll roads.

33. In addition to the disclosures outlined in paragraphs 31 and 32, the grantor also follows the relevant presentation and disclosure requirements in IPSAS1, IPSAS 9, IPSAS 17, IPSAS 19, IPSAS 28, IPSAS 30, and IPSAS 31 as they pertain to assets, liabilities, revenues, and expenses recognized under this Standard.

Transition (see paragraphs AG68–AG71)

34. **An entity that has previously recognized service concession assets and related liabilities, revenues, and expenses shall apply this Standard retrospectively in accordance with IPSAS 3*, Accounting Policies, Changes in Accounting Estimates and Errors*.**

35. **An entity that has not previously recognized service concession assets and related liabilities, revenues, and expenses shall either:**

    (a) **Apply this Standard retrospectively in accordance with IPSAS 3; or**

    (b) **Elect to recognize and measure service concession assets and related liabilities at the beginning of the earliest period for which comparative information is presented in the financial statements.**

Effective Date

36. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2014, it shall disclose that fact and apply IPSAS 5, IPSAS 13, and IPSAS 17, at the same time.**

37. When an entity adopts the accrual basis of accounting as defined by IPSASs for financial reporting purposes~~,~~ subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Appendix A

Application Guidance

This appendix is an integral part of IPSAS 32 .

Scope (see paragraphs 2–7)

AG1. This Standard is intended to "mirror" Interpretation 12 of the International Financial Reporting Interpretations Committee, "Service Concession Arrangements" (IFRIC 12), which sets out the accounting requirements of the operator in a service concession arrangement. The scope, principle for recognition of an asset, and terminology are derived from IFRIC 12. However, because this Standard deals with the accounting issues of the grantor, this Standard addresses the issues identified in IFRIC 12 from the grantor's point of view, as follows:

(a) The grantor recognizes a financial liability when it is obliged to make a series of payments to the operator for provision of a service concession asset (i.e., constructed, developed, acquired, or upgraded). Under paragraphs 12, 14, and 20 of IFRIC 12, the operator recognizes revenue for the construction, development, acquisition, upgrade, and operation services it provides. Under paragraph 8 of IFRIC 12, the operator derecognizes an asset that it held and recognized as property, plant, and equipment before entering the service concession arrangement.

(b) The grantor recognizes a liability when it grants the operator the right to earn revenue from third-party users of the service concession asset or another revenue-generating asset. Under paragraph 26 of IFRIC 12, the operator recognizes an intangible asset.

(c) The grantor derecognizes an asset it grants to the operator and over which it no longer has control. Under paragraph 27 of IFRIC 12, the operator recognizes the asset and a liability in respect of any obligations it has assumed in exchange for the asset.

AG2. Paragraph 9 of this Standard specifies the conditions under which an asset, other than a whole-of-life asset, is within the scope of the Standard. Paragraph 10 of the Standard specifies the condition under which "whole-of-life" assets are within the scope of the Standard.

Definitions (see paragraph 8)

AG3. Paragraph 8 defines a service concession arrangement. Common features of a service concession arrangement are:

(a) The grantor is a public sector entity;

(b) The operator is responsible for at least some of the management of the service concession asset and related services and does not merely act as an agent on behalf of the grantor;

(c) The arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement;

(d) The operator is obliged to hand over the service concession asset to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it; and

(e) The arrangement is governed by a binding arrangement that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.

AG4. Paragraph 8 defines a service concession asset. Examples of service concession assets are: roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, permanent installations for military and other operations, and other non-current tangible or intangible assets used for administrative purposes in delivering public services.

Recognition and Initial Measurement of a Service Concession Asset (see paragraphs 9–14)

Recognition of a Service Concession Asset

AG5. The assessment of whether a service concession asset should be recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) is made on the basis of all of the facts and circumstances of the arrangement.

AG6. The control or regulation referred to in paragraph 10(a) could be by a binding arrangement, or otherwise (such as through a third party regulator that regulates other entities that operate in the same industry or sector as the grantor), and includes circumstances in which the grantor buys all of the output as well as those in which some or all of the output is bought by other users. The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. The binding arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement. When the binding arrangement conveys the right to control the use of the service concession asset to the grantor, the asset meets the condition specified in paragraph 9(a).

AG7. For the purpose of paragraph 9(a), the grantor does not need to have complete control of the price: it is sufficient for the price to be regulated by the grantor, binding arrangement, or a third party regulator that regulates other entities that operate in the same industry or sector (e.g., hospitals, schools, or universities) as the grantor, (e.g., by a capping mechanism). However, the condition is applied to the substance of the agreement. Non-substantive features, such as a cap that will apply only in remote circumstances, are ignored. Conversely, if for example, an arrangement purports to give the operator freedom to set prices, but any excess profit is returned to the grantor, the operator's return is capped and the price element of the control test is met.

AG8. Many governments have the power to regulate the behavior of entities operating in certain sectors of the economy, either directly, or through specifically created agencies. For the purpose of paragraph 9(a), the broad regulatory powers described above do not constitute control. In this Standard, the term "regulate" is intended to be applied only in the context of the specific terms and conditions of the service concession arrangement. For example, a regulator of rail services may determine rates that apply to the rail

industry as a whole. Depending on the legal framework in a jurisdiction, such rates may be implicit in the binding arrangement governing a service concession arrangement involving the provision of railway transportation, or they may be specifically referred to therein. However, in both cases, the control of the service concession asset is derived from either the contract, or similar binding arrangement, or from the specific regulation applicable to rail services and not from the fact that the grantor is a public sector entity that is related to the regulator of rail service.

AG9. For the purpose of paragraph 9(b), the grantor's control over any significant residual interest should both restrict the operator's practical ability to sell or pledge the asset and give the grantor a continuing right of use throughout the period of the service concession arrangement. The residual interest in the asset is the estimated current value of the asset as if it were already of the age and in the condition expected at the end of the period of the service concession arrangement.

AG10. Control should be distinguished from management. If the grantor retains both the degree of control described in paragraph 9(a) and any significant residual interest in the asset, the operator is only managing the asset on the grantor's behalf—even though, in many cases, it may have wide managerial discretion.

AG11. The conditions in paragraphs 9(a) and 9(b) together identify when the asset, including any replacements required, is controlled by the grantor for the whole of its economic life. For example, if the operator has to replace part of an asset during the period of the arrangement (e.g., the top layer of a road or the roof of a building), the asset is considered as a whole. Thus the condition in paragraph 9(b) is met for the whole of the asset, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.

AG12. Sometimes the use of a service concession asset is partly regulated in the manner described in paragraph 9(a) and partly unregulated. However, these arrangements take a variety of forms:

(a) Any asset that is physically separable and capable of being operated independently and meets the definition of a cash-generating unit as defined in IPSAS 26, *Impairment of Cash-Generating Assets* is analyzed separately to determine whether the condition set out in paragraph 9(a) is met if it is used wholly for unregulated purposes (e.g., this might apply to a private wing of a hospital, where the remainder of the hospital is used by the grantor to treat public patients); and

(b) When purely ancillary activities (such as a hospital shop) are unregulated, the control tests are applied as if those services did not exist, because in cases in which the grantor controls the services in the manner described in paragraph 9(a), the existence of ancillary activities does not detract from the grantor's control of the service concession asset.

AG13. The operator may have a right to use the separable asset described in paragraph AG12(a), or the facilities used to provide ancillary unregulated services described in paragraph AG12(b). In either case, there may in substance be a lease from the grantor to the operator; if so, it is accounted for in accordance with IPSAS 13.

Existing Asset of the Grantor

AG14. The arrangement may involve an existing asset of the grantor:

(a) To which the grantor gives the operator access for the purpose of the service concession arrangement; or

(b) To which the grantor gives the operator access for the purpose of generating revenues as compensation for the service concession asset.

AG15. The requirement in paragraph 11 is to initially measure assets recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) at fair value. Existing assets of the grantor used in the service concession arrangement are reclassified rather than recognized under this Standard. Only the cost of any upgrade to the asset (e.g., that increases its capacity) is recognized as a service concession asset in accordance with paragraph 9, or paragraph 10 for a whole-of-life asset).

AG16. In applying the impairment tests in IPSAS 17 or IPSAS 31, as appropriate, the grantor does not necessarily consider the granting of the service concession to the operator as a circumstance that causes impairment, unless there has been a change in use of the asset that affects its future economic benefits or service potential. The grantor refers to IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, as appropriate to determine whether any of the indicators of impairment have been triggered under such circumstances.

AG17. If the asset no longer meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor follows the derecognition principles in IPSAS 17 or IPSAS 31, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognized. If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognized. In such cases, the grantor also considers whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with IPSAS 13.

AG18. When the service concession arrangement involves upgrading an existing asset of the grantor such that the future economic benefits or service potential the asset will provide are increased, the upgrade is assessed to determine whether it meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset). If those conditions are met, the upgrade is recognized and measured in accordance with this Standard.

Existing Asset of the Operator

AG19. The operator may provide an asset for use in the service concession arrangement that it has not constructed, developed, or acquired. If the arrangement involves an existing asset of the operator which the operator uses for the purpose of the service concession arrangement, the grantor determines whether the asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset). If the conditions for recognition are met, the grantor recognizes the asset as a service concession asset and account for it in accordance with this Standard.

Constructed or Developed Asset

AG20. Where a constructed or developed asset meets the conditions in paragraph 9 (or paragraph 10 for a whole of life asset) the grantor recognizes and measures the asset in accordance with this Standard. IPSAS 17 or IPSAS 31, as appropriate, set out the criteria for when a service concession asset should be recognized. Both IPSAS 17 and IPSAS 31 require that an asset shall be recognized if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The cost or fair value of the item can be measured reliably.

AG21. Those criteria, together with the specific terms and conditions of the binding arrangement, need to be considered in determining whether to recognize the service concession asset during the period in which the asset is constructed or developed. For both property, plant, and equipment and intangible assets, the recognition criteria may be met during the construction or development period, and, if so, the grantor will normally recognize the service concession asset during that period.

AG22. The first recognition criterion requires the flow of economic benefits or service potential to the entity. From the grantor's point of view, the primary purpose of a service concession asset is to provide service potential on behalf of the public sector entity. Similar to an asset the grantor constructs or develops for its own use, the grantor would assess, at the time the costs of construction or development are incurred, the terms of the binding arrangement to determine whether the service potential of the service concession asset would flow to the grantor at that time.

AG23. The second recognition criterion requires that the initial cost or fair value of the asset can be measured reliably. Accordingly, to meet the recognition criteria in IPSAS 17 or IPSAS 31, as appropriate, the grantor must have reliable information about the cost or fair value of the asset during its construction or development. For example, if the service concession arrangement requires the operator to provide the grantor with progress reports during the asset's construction or development, the costs incurred may be measurable, and would therefore met the recognition principle in IPSAS 17 for constructed assets or in IPSAS 31 for developed assets. Also, where the grantor has little ability to avoid accepting an asset constructed or developed to meet the specifications of the contract, or a similar binding arrangement, the costs are recognized as progress is made towards completion of the asset. Thus, the grantor recognizes a service concession asset and an associated accruing liability.

Measurement of Service Concession Assets

AG24. Paragraph 11 requires service concession assets to be measured at fair value. Fair value is used to determine the cost of a constructed or developed service concession asset or, the cost of any upgrades on existing assets, on initial recognition. The use of fair value on initial recognition does not constitute a revaluation in IPSAS 17 or IPSAS 31.

AG25. The type of compensation exchanged between the grantor and the operator affects how the fair value of the service concession asset is determined on initial recognition. The paragraphs

that follow outline how to determine the fair value of the asset on initial recognition based on the type of compensation exchanged:

(a) Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset. Paragraphs AG26 to AG30 provide guidance on how to determine what portion of the payments paid to the operator relate to the service concession asset.

(b) Where the grantor does not make payments to the operator for the asset, the asset is accounted for in the same way as an exchange of non-monetary assets in IPSAS 17 and IPSAS 31. Paragraphs AG33 and AG 34 provide guidance on how the value should be determined.

Types of Compensation

AG26. Service concession arrangements are rarely if ever the same; technical requirements vary by sector and by jurisdiction. Furthermore, the terms of the arrangement may also depend on the specific features of the overall legal framework of the particular jurisdiction. Contract laws, where they exist, may contain terms that do not have to be repeated in individual contracts.

AG27. Depending on the terms of the service concession arrangement, the grantor may compensate the operator for the service concession asset and service provision by any combination of the following:

(a) Making payments of cash or cash equivalents to the operator;

(b) Compensating the operator by other means such as:

(i) Granting the operator the right to earn revenue from third-party users of the service concession asset; or

(ii) Granting the operator access to another revenue-generating asset for its use.

Separable Payments

AG28. Where the grantor compensates the operator for the service concession asset by making payments, and the asset and service portions of the payments by the grantor to the operator are separable, the fair value in paragraph 11 is the lower of the present value of payments and the fair value of the asset.

AG29. A service concession arrangement may be separable in a variety of circumstances, including, but not limited to, the following:

(a) Part of a payment stream that varies according to the availability of the service concession asset itself and another part that varies according to usage or performance of certain services are identified;

(b) Different components of the service concession arrangement run for different periods or can be terminated separately. For example, an individual service component can be terminated without affecting the continuation of the rest of the arrangement; or

(c) Different components of the service concession arrangement can be renegotiated separately. For example, a service component is market tested and some or all of the

cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.

AG30. IPSAS 17 and IPSAS 31 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. When the amount of a scheduled payment specifies the amount allocated to the service concession asset, the cash price equivalent is the present value of the service concession asset portion of the predetermined series of payments. However, if the present value is greater than fair value, the service concession asset is initially measured at its fair value.

Inseparable Payments

AG31. Where the asset and service portions of payments by the grantor to the operator are not separable, the fair value in paragraph 11is determined using estimation techniques.

AG32. For the purpose of applying the requirements of this Standard, payments and other consideration required by the arrangement are allocated at the inception of the arrangement or upon a reassessment of the arrangement into those for the service concession asset and those for other components of the service concession arrangement (e.g., maintenance and operation services) on the basis of their relative fair values. The fair value of the service concession asset includes only amounts related to the asset and excludes amounts for other components of the service concession arrangement. In some cases, allocating the payments for the asset from payments for other components of the service concession arrangement will require the grantor to use an estimation technique. For example, a grantor may estimate the payments related to the asset by reference to the fair value of a comparable asset in an agreement that contains no other components, or by estimating the payments for the other components in the service concession arrangement by reference to comparable arrangements and then deducting these payments from the total payments under the arrangement.

Operator Receives Other Forms of Compensation

AG33. The types of transactions referred to in paragraph 14(b) are non-monetary exchange transactions. Paragraph 38 of IPSAS 17 and paragraph 44 of IPSAS 31, as appropriate, provide guidance on these circumstances.

AG34. When the operator is granted the right to earn revenue from third-party users of the service concession asset, or another revenue-generating asset, or receives non-cash compensation from the grantor, the grantor does not incur a cost directly for acquiring the service concession asset. These forms of compensation to the operator are intended to compensate the operator both for the cost of the service concession asset and for operating it during the term of the service concession arrangement. The grantor therefore needs to initially measure the asset component in a manner consistent with paragraph 11.

Subsequent Measurement

AG35. After initial recognition, a grantor applies IPSAS 17 and IPSAS 31 to the subsequent measurement and derecognition of a service concession asset. For the purposes of applying IPSAS 17 and IPSAS 31, service concession assets should be treated as a separate class of assets. IPSAS 21 and IPSAS 26 are also applied in considering whether there is any indication that a service concession asset is impaired. These requirements in these Standards are applied to all assets recognized or classified as service concession assets in accordance with this Standard.

Recognition and Measurement of Liabilities (see paragraphs 15–27)

AG36. The nature of the liability recognized in accordance with paragraph 15 differs in each of the circumstances described in paragraph AG25 according to its substance.

The Financial Liability Model (see paragraphs 18–20)

AG37. When the grantor has an unconditional obligation to make a predetermined series of payments to the operator, the liability is a financial liability as defined in IPSAS 29. The grantor has an unconditional obligation if it has little, if any, discretion to avoid the obligation usually because of the binding arrangement with the operator being enforceable by law.

AG38. Service concession arrangements are concluded by way of a binding arrangement. Binding arrangements may include contracts or similar arrangements that confer similar rights and obligations on the parties as if they were in the form of a contract. Although IPSAS 28, IPSAS 29, and IPSAS 30 only apply to contractual arrangements, if similar arrangements exist that confer the same rights and obligations on either party as if they were in the form of a contract, IPSAS 28, IPSAS 29, and IPSAS 30 are applied by analogy to such arrangements.

AG39. When the grantor provides compensation to the operator for the cost of the service concession asset and service provision in the form of a predetermined series of payments, the portion of the predetermined series of payments that pertains to the asset is recognized as a liability in accordance with paragraph 15. This liability does not include the finance charge and service portions of the payments specified in paragraph 21.

AG40. Where the grantor makes any payments to the operator in advance of the service concession asset being recognized, the grantor accounts for those payments as prepayments.

AG41. The finance charge specified in paragraph 21 is determined based on the operator's cost of capital specific to the service concession asset, if this is practicable to determine.

AG42. If the operator's cost of capital specific to the service concession asset is not practicable to determine, the rate implicit in the arrangement specific to the service concession asset, the grantor's incremental borrowing rate, or another rate appropriate to the terms and conditions of the arrangement, is used.

AG43. Where sufficient information is not available, the rate used to determine the finance charge may be estimated by reference to the rate that would be expected on acquiring a similar asset (e.g., a lease of a similar asset, in a similar location and for a similar term). The estimate of the rate should be reviewed together with:

(a) The present value of the payments;

(b) The assumed fair value of the asset; and

(c) The assumed residual value, to ensure all figures are reasonable and mutually consistent.

AG44. In cases when the grantor takes part in the financing (e.g., by lending the operator the funds to construct, develop, acquire, or upgrade a service concession asset, or through guarantees), it may be appropriate to use the grantor's incremental borrowing rate to determine the finance charge.

AG45. The interest rate used to determine the finance charge may not be subsequently changed unless the asset component or the whole of the arrangement is renegotiated.

AG46. The finance charge related to the liability in an service concession arrangement is presented consistently with other finance charges in accordance with IPSAS 28, IPSAS 29, and IPSAS 30.

AG47. The service portion of payments determined in accordance with paragraph 21 is ordinarily recognized evenly over the term of the service concession arrangement because this pattern of recognition best corresponds to the service provision. In cases when specific expenses are required to be separately compensated, and their timing is known, such expenses are recognized as incurred.

Grant of a Right to the Operator Model (see paragraphs 24–25)

AG48. When the grantor compensates the operator for the service concession asset and service provision by granting the operator the right to earn revenue from third-party users of the service concession asset, a liability is recognized and for any unearned revenue arising from the exchange of assets between the grantor and the operator. Revenue recognized and the liability reduced in accordance with paragraph 24 based on the economic substance of the service concession arrangement, usually as access to the service concession asset is provided to the operator over the term of the service concession arrangement. As described in paragraph AG27, the grantor may compensate the operator by a combination of payments and granting a right to earn revenue directly from third-party users. In such cases, if the operator's right to earn such third-party revenues significantly reduces or eliminates the grantor's predetermined series of payments to the operator, another basis may be more appropriate for reducing the liability (e.g., the term over which the grantor's future predetermined series of payments are reduced or eliminated).

AG49. When the grantor compensates the operator for the service concession asset and service by the provision of a revenue-generating asset, other than the service concession asset, revenue is recognized and the liability recognized in accordance with paragraph 24 is reduced in a manner similar to that descried in paragraph AG48. In such cases, the grantor also considers the derecognition requirements in IPSAS 17 or IPSAS 31, as appropriate.

AG50. In some cases under the grant of a right to the operator model, there may be a "shadow toll". Some shadow tolls are paid for both the construction, development, acquisition, or upgrade of the service concession asset, and its operation by the operator. In cases where the grantor pays the operator solely for the usage of the service concession asset by the third-party users, such payment is compensation in exchange for the usage and not the acquisition of the service concession asset. Accordingly, such payments do not relate to the liability specified in paragraph AG44. The grantor compensates the operator only to the extent of the usage of the service concession asset, and accounts for such payments as expenses in accordance with IPSAS 1.

Dividing the Arrangement (see paragraphs 26–27)

AG51. If the operator is compensated for the service concession asset partly by a predetermined series of payments and partly by receiving the right to earn revenue from third-party use of either the service concession asset or another revenue-generating asset, it is necessary to account separately for each portion of the liability related to the grantor's consideration. In these circumstances, the consideration to the operator is divided into a financial liability portion for the predetermined series of payments and a liability portion for the right granted to the operator to earn revenue from third-party use of the service concession asset or another revenue-generating asset. Each portion of the liability is recognized initially at the fair value of the consideration paid or payable.

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets (see paragraph 28)

AG52. Service concession arrangements may include various forms of financial guarantees (e.g., a guarantee, security, or indemnity related to the debt incurred by the operator to finance construction, development, acquisition, or upgrade of a service concession asset), or performance guarantees (e.g., guarantee of minimum revenue streams, including compensation for short-falls.

AG53. Certain guarantees made by a grantor may meet the definition of a financial guarantee contract. The grantor determines whether guarantees made by the grantor as part of a service concession arrangement meet the definition of a financial guarantee contract and applies IPSAS 28, IPSAS 29, and IPSAS 30in accounting for the guarantee. Where the guarantee is an insurance contract, the grantor can elect to apply the relevant international or national accounting standard dealing with insurance contracts. See IPSAS 28, paragraphs AG3–AG9 for further guidance.

AG54. Guarantees and commitments that do not meet the requirements in IPSAS 28 and IPSAS 29 relating to financial guarantee contracts or are not insurance contracts are accounted for in accordance with IPSAS 19.

AG55. Contingent assets or liabilities may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with IPSAS 19.

Other Revenues (see paragraph 29)

AG56. The operator may compensate the grantor for access to the service concession asset by providing the grantor with a series of predetermined inflows of resources, including the following:

(a) An upfront payment or a stream of payments to the;

(b) Revenue-sharing provisions;

(c) A reduction in a predetermined series of payments the grantor is required to make to the operator; and

(d) Rent payments for providing the operator access to a revenue-generating asset

AG57. When the operator provides an upfront payment, a stream of payments, or other consideration to the grantor for the right to use the service concession asset over the term of the service concession arrangement, the grantor accounts for these payments in accordance with IPSAS 9. The timing of the revenue recognition is determined by the terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

AG58. Where the operator provides an upfront payment, a stream of payments, or other consideration to the grantor in addition to the service concession asset, for the right to earn the revenue from third-party use of the service concession asset, or another revenue-generating asset, any portion of the payments received from the operator not earned in the accounting period is recognized as a liability until the conditions for revenue recognition are met.

AG59. When the conditions for revenue recognition are met, the liability is reduced as the revenue is recognized in accordance with paragraph 29.

AG60. However, given the varying nature of the types of assets that may be used in service concession arrangements, and the number of years over which the arrangements operate, there may be more appropriate alternative methods for recognizing revenue associated with the inflows specified in the binding arrangement that better reflect the operator's economic consumption of their access to the service concession asset and/or the time value of money. For example, an annuity method that applies a compounding interest factor that more evenly recognizes revenue on a discounted basis, as opposed to on a nominal basis, may be more appropriate for a service concession arrangement with a term extending over several decades.

AG61. When an upfront payment is received from the operator, the revenue is recognized in a way that best reflects the operator's economic consumption of its access to the service concession asset and/or the time value of money. For example, when the operator is required to pay annual installments over the term of the service concession arrangement, or predetermined sums for specific years, the revenue is recognized over the specified term.

AG62. For service concession arrangements under which the operator is granted the right to earn revenue from third-party users of the service concession asset, revenue relates to the inflow of economic benefits received as the services are provided and is therefore recognized on the same basis as the liability is reduced. In these cases, the grantor will often negotiate to include a revenue-sharing provision in the arrangement with the operator. Revenue-sharing as part of a service concession arrangement may be based on all revenue earned by the operator, or on revenue above a certain threshold, or on revenue more than the operator needs to achieve a specified rate of return.

AG63. The grantor recognizes revenue generated from revenue-sharing provisions in service concession arrangements as it is earned, in accordance with the substance of the relevant agreement, after any contingent event (e.g., the achievement of a revenue threshold) is deemed to have occurred. The grantor applies IPSAS 19 to determine when the contingent event has occurred.

AG64. A reduction in the future predetermined series of payments the grantor would otherwise be required to make to the operator provides the grantor with upfront non-cash consideration. Such revenue is recognized as the liability is reduced (see paragraphs AG44–45).

AG65. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognized in accordance with IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*.

Presentation and Disclosure (see paragraphs 30–33)

AG66. Disclosures relating to various aspects of service concession arrangements may be addressed in existing Standards. This Standard addresses only the additional disclosures relating to service concession arrangements. Where the accounting for a particular aspect of a service concession arrangement is addressed in another Standard, the grantor follows the disclosure requirements of that Standard in addition to those set out in paragraph 27.

AG67. IPSAS 1 requires finance costs to be presented separately in the statement of financial performance. The finance charge determined in accordance with paragraph 21 is included in this item.

Transition (see paragraphs 34–35)

AG68. Where an entity has not previously recognized service concession assets, an entity may elect to use one of the following amounts, determined at the beginning of the earliest period for which comparative information is presented in the financial statements, as deemed cost:

(a) For property, plant, and equipment, fair value, or depreciated replacement cost as a means of estimating fair value where there is no market (see IPSAS 17, paragraphs 46–48).

(b) For intangible assets, fair value.

AG69. Depreciation is based on that deemed cost and starts from the date for which the entity established the deemed cost.

Use of Deemed Cost under the Financial Liability Model

AG70. Where an entity uses deemed cost under the financial liability model, it measures:

(a) The financial liability using the remaining contractual cash flows specified in the binding arrangement.

(b) The service concession asset using fair value (see paragraph 11).

Any difference between the value of the asset and the financial liability is recognized directly net assets/equity. If the entity chooses as its accounting policy the revaluation model in IPSAS 17 or IPSAS 31, this difference is included in any revaluation surplus.

Use of Deemed Cost under the Grant of a Right to the Operator Model

AG71. Where an entity uses deemed cost under the grant of a right to the operator model, it measures:

(a) The service concession asset at fair value (see paragraph 11).

(b) The liability representing the unearned portion of any revenue arising from the receipt of the service concession asset. This amount should be determined as the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.

Appendix B

Amendments to Other IPSASs

IPSAS 5, *Borrowing Costs*

Paragraph 6 is amended as follows:

Borrowing Costs

6. Borrowing costs may include:

   (a) Interest on bank overdrafts and short-term and long-term borrowings;

   (b) Amortization of discounts or premiums relating to borrowings;

   (c) Amortization of ancillary costs incurred in connection with the arrangement of borrowings;

   (d) Finance charges in respect of finance leases and service concession arrangements; and

   (e) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Effective Date

A new paragraph is inserted after paragraph 42 as follows:

42A. Paragraph 6 was amended by IPSAS 32, *Service Concession Arrangements: Grantor* issued in Month 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2014, it shall disclose that fact.

IPSAS 13, *Leases*

Paragraphs 25–27 are amended as follows:

Leases and Other Contracts

25. A contract may consist solely of an agreement to lease an asset. However, a lease may also be one element in a broader set of agreements with private sector entities to construct, own, operate and/or transfer assets. Public sector entities often enter into such agreements, particularly in relation to long-lived physical assets and infrastructure assets. ~~For example, a public sector entity may construct a tollway. It may then lease the tollway to a private sector entity as part of an arrangement whereby the private sector entity agrees to:~~

   ~~(a) Lease the tollway for an extended period of time (with or without an option to purchase the facility);~~

   ~~(b) Operate the tollway; and~~

   ~~(c) Fulfill extensive maintenance requirements, including regular upgrading of both the road surface and the traffic control technology.~~

Other agreements may involve a public sector entity leasing infrastructure from the private sector. The entity determines whether the arrangement is a service concession arrangement, as defined in IPSAS 32, *Service Concession Arrangements: Grantor*.

26. Where an arrangement does not meet the conditions for recognition of a service concession asset in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*. and the arrangement contains an identifiable operating lease or finance lease as defined in this Standard, the provisions of this Standard are applied in accounting for the lease component of the arrangement.

27. Public sector entities may also enter a variety of agreements for the provision of goods and/or services, which necessarily involve the use of dedicated assets. In some of these agreements, it may not be clear whether ~~or not~~ a service concession arrangement as defined in IPSAS 32, *Service Concession Arrangements: Grantor*. or a lease, as defined by this Standard, has arisen. In these cases professional judgment is exercised, and if a lease has arisen this Standard is applied; and if a lease has not arisen entities account for those agreements by applying the provisions of other relevant IPSASs, or in the absence thereof, other relevant international and/or national accounting standards.

Effective Date

A new paragraph is inserted after paragraph 85A as follows:

85B. Paragraphs 25, 26 and 27 were amended by IPSAS 32, *Service Concession Arrangements: Grantor* issued in Month 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2014, it shall disclose that fact.

IPSAS 17, *Property, Plant, and Equipment*

Paragraph 4 is amended as follows:

Scope

4. This Standard applies to property, plant and equipment including:

   (a) Specialist military equipment; ~~and~~

   (b) Infrastructure assets~~.~~; and

   (c) Service concession arrangement assets after initial recognition and measurement in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*.

Paragraph 7 is amended as follows:

7. Other IPSASs may require recognition of an item of property, plant, and equipment based on an approach different from that in this Standard. For example, IPSAS 13, *Leases* requires an entity to evaluate the recognition of an item of leased property, plant, and equipment on the basis of the transfer of risks and rewards. IPSAS 32, *Service Concession Arrangements: Grantor* requires an entity to evaluate the recognition of an item of property, plant, and equipment used in a service concession arrangement on the

basis of control of the asset. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

Effective Date

A new paragraph is inserted after paragraph 107B as follows:

107C. Paragraphs 4 and 7 were amended by IPSAS 32, *Service Concession Arrangements: Grantor* issued in Month 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2014, it shall disclose that fact.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 32 .

Objective

BC1. In the absence of an International Public Sector Accounting Standard dealing with service concession arrangements, public sector entities are directed, in IPSAS 1 to look to other international or national accounting standards. In the case of arrangements involving private sector participation, they would try to apply the principles in Interpretation 12 of the International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC 12), *Service Concession Arrangements*. However, IFRIC 12 addresses accounting by the operator, and does not, therefore, provide guidance for the grantor. The IPSASB believes this Standard will promote consistency and comparability in how service concession arrangements are reported by public sector entities.

Scope

BC2. After considering the various types of arrangements involving public and private sector entities identified in the development of the March 2008 Consultation Paper, "Accounting and Financial Reporting for Service Concession Arrangements," the IPSASB agreed that the scope of this Standard should be the mirror of IFRIC 12, in particular, the criteria under which the grantor recognizes a service concession asset (see paragraphs BC9–BC13). The rationale for this decision is that this approach would require both parties to the same arrangement to apply the same principles in determining which party should recognize the asset used in a service concession arrangement.Thus, arrangements in which the criteria for recognition of a service concession asset in paragraph 9 (or paragraph 10 for a whole-of-life asset) are not satisfied, are outside the scope of this IPSAS. The IPSASB considers that this approach minimizes the possibility for an asset to be accounted for by both of the parties, or by neither party.

BC3. The IPSASB recognized that the Standard should provide Implementation Guidance on the relevant IPSASs that apply to arrangements outside the scope of the Standard. The Implementation Guidance contains a flowchart illustrating the application of this Standard as well as a table of references to relevant IPSASs for the other types of arrangements that are outside the scope of this Standard.

BC4. The IPSASB concluded that it was important to provide guidance on accounting for the consideration given by the grantor to the operator for the service concession asset. The consideration may give the operator rights to a determinable series of payments of cash or cash equivalents or a right to earn revenue from third-party users of the service concession asset or another revenue-generating asset for its use, or a combination of both types of consideration. Each type of consideration results in specific accounting issues on which the IPSASB has provided guidance to facilitate consistent application of the Standard.

BC5. The IPSASB also concluded that guidance was necessary on applying the general revenue recognition principles in IPSAS 9, *Revenue from Exchange Transactions* to service concession arrangements because of the unique features of some service

concession arrangements (e.g., revenue-sharing provisions, provision of a revenue-generating asset for nominal rent).

BC6. This Standard does not specify the accounting by operators, because it is addressed in IFRIC 12. In many cases the operator is a private enterprise, and IPSASs are not designed to apply to private sector entities. The operator or the grantor may also be a Government Business Enterprise (GBE).IPSASs are not designed to apply to GBEs. International Financial Reporting Standards (IFRSs) apply to private sector entities and GBEs.

BC7. Some respondents to ED 43 suggested that the scope of the proposed Standard should be extended to include public-to-public service concession arrangements. The IPSASB noted that addressing the accounting for such arrangements was not the primary purpose of the project which was to address the cases when the grantor is a public sector eneity that follows IPSASs. The IPSASB noted that application of this Standard by analogy would be appropriate.

Definitions

BC8. ED 43 did not provide definitions because IFRIC 12 did not do so Accordingly, ED 43 provided guidance on certain terminology. Respondents to ED 43 proposed that, because this is a Standard and not an Interpretation, it was important to include definitions for consistency in application of the Standard. The IPSASB agreed that this Standard should include definitions.

BC9. The IPSASB agreed not to use the term “infrastructure” to refer to the asset used in a service concession arrangement, even though IFRIC 12 uses the term. The IPSASB noted that the term is used in IPSASs in ways that may not be fully compatible with this Standard. Further, the term has a prescribed meaning in some jurisdictions that differs from that used in IFRIC 12. To ensure clarity that the asset referred to is the one recognized on the basis of the conditions for recognition in paragraph 9 of this Standard (or paragraph 10 for a whole-of-life asset), the asset in this Standard is referred to as the “service concession asset.” This term is intended to cover the same types of assets as envisaged in IFRIC 12.

BC10. The term “binding arrangement” had not been defined previously, but has been used in other IPSASs to describe arrangements that that confer similar rights and obligations on the parties to it as if they were in the form of a contract. The IPSASB concluded that this for the purposes of this Standard, this term should be defined to ensure consistent application of the Standard..

Recognition of a Service Concession Asset

BC11. The main accounting issue in service concession arrangements is whether the grantor should recognize a service concession asset.

BC12. The IPSASB considered the merits of the risks and rewards and the control-based approach to assess whether the grantor should recognize the asset. The risks and rewards approach focuses on the economic aspects of the terms and conditions in the arrangement. The IPSASB did not believe this focus to be appropriate for service concession arrangements because the primary purpose of a service concession asset, from the grantor’s point of view,

is to provide specified public services on behalf of the grantor using a service concession asset, and not to provide economic benefits such as revenue generated by such assets (e.g., from user fees). Thus, the service potential of the asset accrues to the grantor. Economic benefits are only likely to arise from a service concession arrangement in circumstances where the operator is granted the right to earn revenue from third-party users, of either the service concession asset or another revenue-generating asset. A control-based approach focuses on control over the economic benefits and the service potential of the service concession asset.

BC13. As it is often the case that service concession arrangements are entered into for the sharing of risks between the grantor and the operator, the IPSASB also questioned whether sufficiently objective criteria could be established for assessing risks and rewards to enable consistent results to be determined. In addition, weighting of various risks and rewards was seen to be problematic. The IPSASB concluded, therefore, that the risks and rewards approach is inappropriate.

BC14. The IPSASB also considered whether a rights and obligations approach was appropriate. Although such an approach could have conceptual merit, the IPSASB believes that it would represent a significant change in the accounting and financial reporting of assets and liabilities for public sector entities that could have implications beyond service concession arrangements. Given the IPSASB's decision to complement IFRIC 12, which uses a control-based approach, the IPSASB agreed that a rights and obligations approach was not appropriate for this Standard.

BC15. The IPSASB concluded that a control-based approach was the most effective means to determine whether the grantor should recognize the asset. The IPSASB concluded that if a control-based approach is used, it should be consistent with IFRIC 12, for the same reasons cited in paragraph BC2. Accordingly, this Standard addresses only arrangements in which the grantor (a) controls or regulates the services provided by the operator, and (b) controls any significant residual interest in the service concession asset at the end of the term of the arrangement. Consistent with IFRIC 12, in the case of whole-of-life assets, only condition (a) must be met for recognition of a service concession asset. The IPSASB concluded that it was important to stress that a service concession arrangement is a binding arrangement. Accordingly, the assessment of whether a service concession asset should be recognized is made on the basis of all of the facts and circumstances of the arrangement.

BC16. Paragraph 9(a) of this Standard (paragraph 10(a) of ED 43) is consistent with paragraph 5 of IFRIC 12. It is intended to apply only the regulation that is specific to the service concession arrangement, and not to the broad understanding of public sector regulatory powers from the grantor's point of view. The regulation referred to in paragraph 9(a) of this Standard is either by contract or through a regulator. Guidance is provided in paragraph AG6 on applying the term "regulates" in paragraph 9(a) to determine whether the grantor should recognize a service concession asset. Some respondents to ED 43 asserted that providing such additional guidance creates an asymmetry with IFRIC 12, as there is no additional guidance on the meaning of this term. The IPSASB considers the additional guidance provided in paragraph AG6 is necessary to ensure symmetry exists between the public sector grantor's and the private sector operator's application of the "regulates" criterion in determining whether to recognize the service concession asset, as

the public sector may have considered the term in the context of the broad regulatory powers of governments.

Recognition of a Liability

BC17. ED 43 described two circumstances that may give rise to a liability when the grantor recognizes a service concession asset, based on the nature of the consideration due to the operator in exchange for the service concession asset.

BC18. ED 43 proposed that when the grantor recognizes a service concession asset, a liability shall also be recognized. The ED noted that this liability may be any combination of a financial liability and a performance obligation. ED 43 proposed that a financial liability occurs when the grantor has a determinable series of cash payments of cash or cash equivalents to make to the operator and a performance obligation occurs when the grantor compensates the operator by granting the operator the right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. ED 43 proposed that the grantor account for the performance obligation in accordance with IPSAS 19.

BC19. Respondents to ED 43 sought clarification on this issue, particularly with respect to the "performance obligation" identified in ED 43. Respondents' concerns are summarized below.

(a) The right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset was seen by some respondents as independent of the compensation for the asset. These respondents highlighted that the requirement to provide access is a feature of most service concession arrangements, and if this is to be recognized, such recognition should not be dependent on the non-occurrence of a payment stream from the grantor to the operator.

(b) While being described as a performance obligation, there is no obligation for an outflow of economic resources from the grantor in future periods. These respondents therefore question whether a liability as defined in IPSAS 1, or a provision as defined in IPSAS 19 could be fairly represented to exist.

BC20. In addition, a number of other respondents, possibly as a result of the above concerns, requested clarification of the meaning of "performance obligation" in the ED. A few of these respondents queried whether the substance of the nature of this "balancing item" was deferred revenue.

BC21. The IPSASB agreed that clarification of this issue was required. The IPSASB noted that using the term "performance obligation" could give rise to confusion because it is used in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* in relation to non-exchange transactions. The IPSASB noted that a service concession arrangement is an exchange transaction rather than a non-exchange transaction and therefore it would be preferable not to use the term performance obligation in relation to exchange transactions.

BC22. In IFRIC 12, when the operator does not control the service concession asset, the operator recognizes either a financial asset, or an intangible asset, depending on which party bears the demand risk. The IPSASB agreed that, to maintain symmetry with IFRIC 12, the same approach should be adopted for the grantor. Thus, two models are identified for accounting for the credit when the grantor recognizes a service concession asset in accordance with this Standard: the financial liability model, and the grant of a right to the operator model (which replaces the "performance obligation").

BC23. The IPSASB's decision to amend the terminology used in ED 43 from "performance obligation" to the Standard's use of "liability" does not change the grantor's accounting treatment of a service concession arrangement from that proposed in ED 43.

The Financial Liability Model

BC24. Where the grantor compensates the operator by the delivery of cash or another financial asset in exchange for its control of a service concession asset. IFRIC 12 classifies this type of arrangement as the "financial asset model" because the operator receives a financial asset. This Standard refers to this type of arrangement as the "financial liability model" because the grantor has a financial liability.

BC25. A financial liability arises in cases when the grantor is obligated to make a determinable series of payments to the operator because the grantor has an obligation as a result of the binding arrangement to deliver cash or another financial asset to another entity (the operator). The IPSASB concluded further that when there is a determinable series of payments of cash or cash equivalents, the payments should be allocated among portions that reduce the liability, an imputed finance charge and charges for services provided by the operator under the service concession arrangement.

Grant of a Right to the Operator Model

BC26. In responding to the issues raised by respondents to ED 43, the IPSASB reconsidered the nature of the consideration given by the grantor for the service concession asset where the operator recoups the price of the asset from earning revenue from third-party users of the service concession asset or another revenue-generating asset. The IPSASB noted that in this situation, the cash consideration for the service concession asset is not being met by the grantor but by users of the service concession asset or other revenue-generating asset. The economic substance of this arrangement provides an increase in net assets to the grantor, and therefore revenue accrues and should be recognized. As the service concession arrangement is an exchange transaction, the Board referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue.

BC27. Where the operator bears the demand risk, the grantor compensates the operator by the grant of a right (e.g., a licence) to charge users of the public service related to the service concession asset or of another revenue-generating asset. The grantor provides the operator access to the asset in order for the operator to be compensated for construction, development, acquisition, or upgrade of the service concession asset. IFRIC 12 classifies this type of arrangement as the "intangible asset model." This Standard refers to this type of arrangement as the "grant of a right to the operator model."

BC28. The IPSASB therefore considered whether the credit should be accounted for as a liability (including whether the grantor has a long-term liability, and if so, the nature of the liability), as a direct increase to net assets/equity, or as revenue.

BC29. It was agreed that, in this circumstance, the grantor does not have a long-term liability as defined in IPSAS 19 because the service concession arrangement is an exchange of assets, with the service concession asset being obtained by the grantor in exchange for a transfer of rights to the operator to earn revenue from third-party users of the asset over the period of the service concession arrangement.

BC30. Some respondents to ED 43 indicated that the credit should be treated as net assets/equity, consistent with IPSAS 1, which defines net assets/equity as the residual interest in the assets of the entity after deducting all its liabilities. IPSAS 1 envisages four components of net assets/equity. Those components include:

(a) Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;

(b) Accumulated surpluses or deficits;

(c) Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and

(d) Minority interests.

BC31. The IPSASB concluded that the credit did not represent a direct increase in the grantor's net assets/equity because the credit is not one of the components of net assets/equity identified in paragraph BC25 for the reasons noted below:

(a) Contributions from owners are defined as "future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which: (a) Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) Can be sold, exchanged, transferred, or redeemed. The credit related to the recognition of a service concession asset does not meet this definition because the operator has not made a contribution to the grantor that results in a financial interest in the entity by the operator as envisaged by IPSAS 1.

(b) Accumulated surplus/deficit is an accumulation of an entity's surpluses and deficits. The credit related to recognition of a service concession asset represents an individual transaction and not an accumulation.

(c) Reserves generally arise from items recognized directly in net assets/equity from specific requirements in IPSASs, and may include, for example, gains and losses on revaluation of assets (e.g., property, plant and equipment, investments). The credit related to the recognition or reclassification of a service concession asset does not represent a gain or loss specified to be directly recognized in net/assets equity because it involves an exchange transaction and not a revaluation of an existing asset of the grantor. Existing assets of the grantor, when used in a service concession arrangement and continue to meet the control criteria in this Standard, are reclassified, thus no revaluation is done.

(d) A minority interest is defined as "that portion of the surplus or deficit and net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly, through controlled entities, by the controlling entity. A minority interest may arise, for example, when at the whole-of-government level, the economic entity includes a GBE that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity. The credit related to the recognition of a service concession asset does not meet this definition because operator does not have such a financial interest in the grantor.

BC32. The IPSASB agreed that the credit represents revenue. As a service concession arrangement is an exchange transaction, the IPSASB referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue. In accordance with IPSAS 9, *Revenue from Exchange Transactions*, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue as it results in an increase in the net assets of the grantor. In this situation, the grantor has received a service concession asset in exchange for granting a right (a license) to the operator to charge the third party users of the public service that it provides on the grantor's behalf. The service concession asset recognized by the grantor and the right (intangible asset) recognized by the operator are dissimilar. However, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

BC33. The IPSASB noted that, in this situation, there is no cash inflow to equal the revenue recognized. This result is consistent with IPSAS 9 in which an entity provides goods or services in exchange for another dissimilar asset that is subsequently used to generate cash revenues.

BC34. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

BC35. IPSAS 9 identifies three types of transaction that give rise to revenue: the rendering of services, the sale of goods (or other assets) and revenue arising from the use by others of the entity's assets, yielding interest, royalties, and dividends. In considering the nature of the revenue, the IPSASB considered these types of transactions separately.

BC36. The IPSASB considered the approaches to revenue recognition set out in IPSAS 9 in relation to the "grant of a right to the operator" model and concluded that none of those scenarios fully met the circumstances of this model. Nevertheless, the IPSASB noted that the timing of revenue recognition under each of them is over the term of the arrangement, rather than immediately. The IPSASB determined that, by analogy, such a pattern of revenue recognition was also appropriate for recognizing the revenue arising from the liability related to this model. As a result, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

BC37. The IPSASB considered whether the grantor should recognize the operating expenses in the circumstances described in paragraph BC27 relating to the grant of a right to the operator model. The IPSASB noted that the grantor's liability recognized relates solely to the service concession asset received by the grantor. If the service expenses were recognized, the grantor would also have to recognize annually imputed revenue equal to the annual expense. The IPSASB did not believe this accounting would provide useful information, because revenue and an expense of equal amounts would be recognized annually. The IPSASB noted further that reliable information about the operator's expenses may not be available in any case. The IPSASB therefore concluded that the grantor should not recognize operating expenses associated with the service concession arrangement in the circumstances described in paragraph BC27.

Accounting Issues Addressed in other IPSASs

BC38. Because of the complexity of many service concession arrangements, there may be additional accounting issues related to certain terms in the contract, or a similar binding arrangement (e.g., revenues, expenses, guarantees, and contingencies). The IPSASB agreed that it was not necessary to repeat such existing guidance in this Standard. Accordingly, when an existing IPSAS specifies the accounting and reporting for a component of a service concession arrangement, that IPSAS is referred to in this Standard and no additional guidance is provided. However, the IPSASB noted some cases (e.g., revenue recognition), when the application of such IPSASs would be difficult given certain unique features in service concession arrangements. To ensure consistent implementation of this Standard, the IPSASB provided specific guidance on how the principles in the other IPSAS would be applied.

Transition

BC39. This Standard requires an entity that has previously recognized service concession assets and related liabilities, revenues, and expenses to apply this Standard retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. The Standard also requires an entity that has not previously recognized service concession assets and related liabilities, revenues, and expenses and uses the accrual basis of accounting to apply this Standard prospectively, although retrospective application is permitted in such cases. The general requirement in IPSAS 3 is that the changes should be accounted for retrospectively, except to the extent that retrospective application would be impracticable.

BC40. The IPSASB noted that there are two aspects to retrospective determination: reclassification and remeasurement. The IPSASB took the view that it will usually be practicable to determine retrospectively the appropriate classification of all amounts previously included in a grantor's statement of financial position, but that retrospective remeasurement of service concession assets might not always be practicable, particularly if an entity has not previously recognized service concession assets and related liabilities, revenues, and expenses.

BC41. The IPSASB noted that, when retrospective restatement is not practicable, IPSAS 3 requires prospective application from the earliest practicable date, which could be the start of the current reporting period.

BC42. Some respondents to ED 43 questioned why the general requirements in IPSAS 3 are not appropriate for an entity that has not previously recognized service concession arrangements.

BC43. When developing ED 43 the IPSASB had concerns relating to the practicality of determining the measurement of a service concession asset, and considered that this could result in inconsistent treatment of arrangements entered into in the past. This was a similar issue to that which arose in finalizing IPSAS 31, *Intangible Assets.* On that basis, the IPSASB considered it appropriate to propose transitional provisions in ED 43 that were consistent with those in IPSAS 31.

BC44. However, the IPSASB noted that the circumstances surrounding intangible assets differ from those in service concession arrangements. Notably, service concession arrangements generally involve long-term binding arrangements for which information required to develop

fair value and cost information would likely be more readily available than it is for intangible assets acquired or developed in the past.

BC45. The IPSASB did however acknowledge that because many of these arrangements may have been entered into some time ago, it may be difficult to apply full retrospective application. As a result, the IPSASB considered that a "deemed cost" could be used to recognize and measure service concession assets. Deemed cost is determined for the earliest period for which comparative information is presented. The IPSASB concluded that deemed cost for service concession assets should be determined using the following measurement bases:

(a) For property, plant and equipment, IPSAS 17 allows revaluation using fair value or depreciated replacement cost, thus both are referred to in the proposals.

(b) For intangible assets IPSAS 31 only allows fair value for revaluation, thus the deemed cost is limited to fair value.

Effective Date

BC46. ED 43 did not propose an effective date for implementation. A respondent suggested that for entities to have the information available to be able to restate their prior year comparatives the effective date should be at least two years from the date of issue of the Standard. The IPSASB agreed with this suggestion and modified the Standard accordingly. To provide entities sufficient time to gather the information necessary to restate their comparative financial statements, the IPSASB concluded that the effective date of the Standard would be two years after its date of issue.

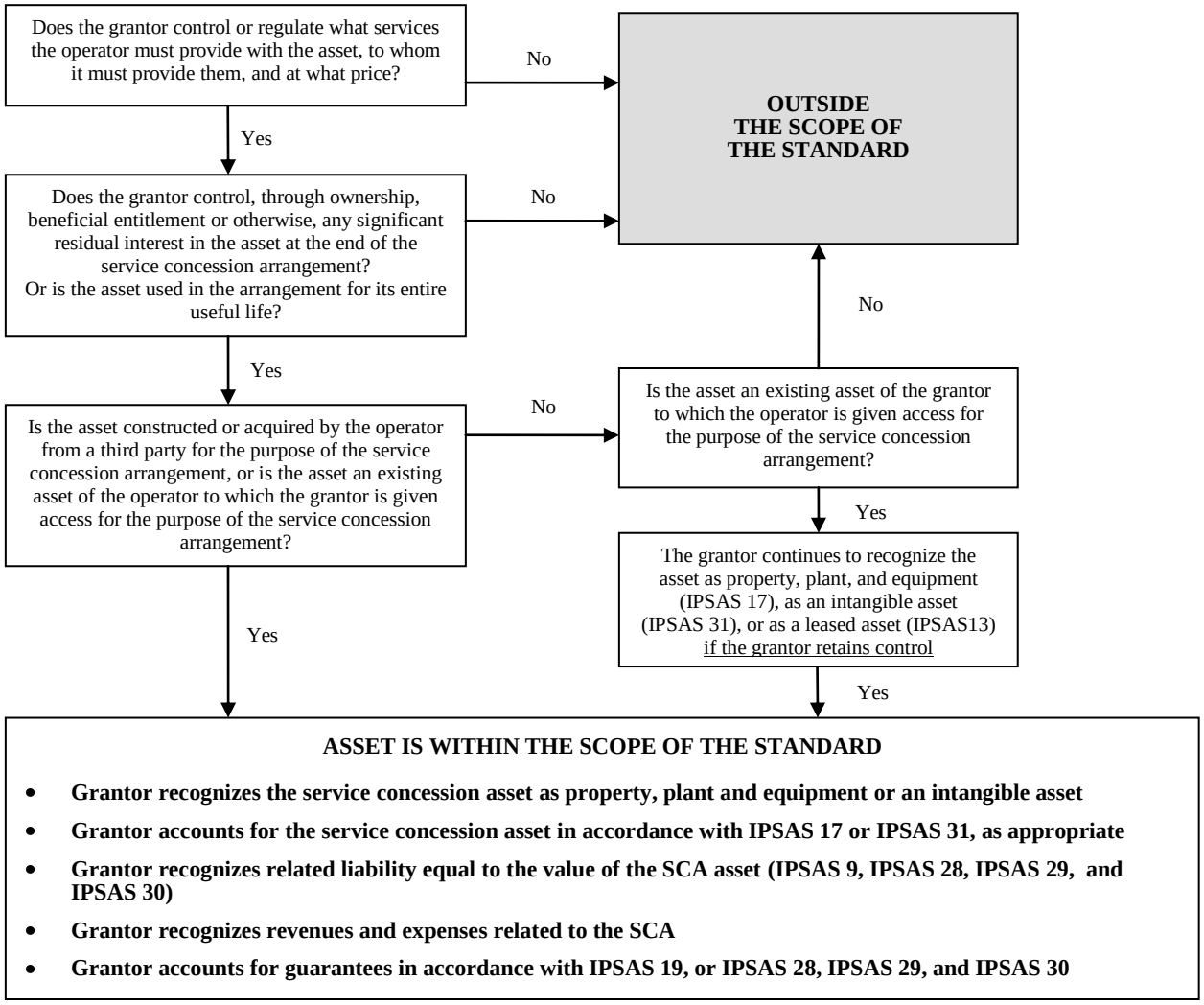
Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 32 .

The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS 32.

Accounting Framework for Service Concession Arrangements

The diagram below summarizes the accounting for service concession arrangements established by this Standard.



References to IPSASs that Apply to Typical Types of Arrangements Involving an Asset Combined with Provision of a Service

The table sets out the typical types of arrangements for private sector participation in the provision of public sector services and provides references to IPSASs that apply to those arrangements. The list of arrangements types is not exhaustive. The purpose of the table is to highlight the continuum of arrangements. It is not the IPSASB's intention to convey the impression that bright lines exist between the accounting requirements for various types of arrangements.

Shaded text shows arrangements within the scope of this IPSAS.

	Lessee	**Service provider**			**Owner**	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate-transfer	"Build-operate-transfer"	"Build-own-operate"	100% Divestment/ Privatization/ Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years			Indefinite (or may be limited by contract or license)
Residual interest	Grantor				Operator	
Relevant IPSASs	IPSAS 13	IPSAS 1	This IPSAS/IPSAS 17/ IPSAS 31		IPSAS 17/IPSAS 31 (derecognition) IPSAS 9 (revenue recognition)	

Illustrative Examples

These examples accompany, but are not part of, IPSAS 32.

These examples deal with only three of many possible types of service concession arrangements. Their purpose is to illustrate the accounting treatment for some features that are commonly found in practice. To make the illustrations as clear as possible, it has been assumed that the term of the service concession arrangement is only ten years and that the operator's annual receipts are constant over that period. In practice, terms may be much longer and annual revenues may increase with time.

Arrangement Terms (Common to All Three Examples)

In these examples, monetary amounts are denominated in "currency units" (CU).

These terms are common to the three examples that follow:

IE1. The terms of the arrangement require an operator to construct a road—completing construction within two years—and maintain and operate the road to a specified standard for eight years (i.e., years 3–10). The arrangement is within the scope of this Standard and the road meets the conditions for recognition of a service concession asset in paragraph 9 (or paragraph 10 for a whole-of-life asset).

IE2. The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8 at a fair value of CU110. The compensation to the operator for this service is included in the predetermined series of payments and/or the revenue the operator has the right to earn from the service concession asset or another revenue-generating asset granted to the operator by the grantor.

IE3. It is assumed that the original road surface is a separate component of the service concession asset and meets the criteria for recognition specified in IPSAS 17 when the service concession asset is initially recognized. It is further assumed that there is sufficient certainty regarding the timing and amount of the resurfacing work for it to be recognized as a separate component when the resurfacing occurs.[1] It is assumed that the expected cost of the resurfacing can be used to estimate the initial cost of the surface layers recognized as a separate component of the service concession asset. The road surface is therefore recognized as a separate component of the initial fair value of the service concession asset and measured at the estimated fair value of the resurfacing and depreciated over years 3–8. This depreciation period is shorter than that for the road base, and takes into account that resurfacing would ordinarily occur over six years, rather than 25 years.

IE4. Recognition of the replacement component of the road surface as a separate component of the service concession asset in year 8 also results in an increase in the liability recognized by the grantor. Where the liability relates to the grant of a right to the operator model, additional revenue in respect of this increase is recognized evenly over the term of the arrangement. However, if the expenditure represented an improvement in service potential such as a new

[1] If this was not the case (e.g., where the operator might resurface in future, or might incur additional maintenance over the period of the service concession arrangement), it might not be appropriate to recognize a component.

traffic lane rather than restoration to original service capability then it would be appropriate to instead recognize revenue relevant to that improvement only once it has occurred.

IE5. At the beginning of year 3, the total fair value of the road is CU1,083, comprised of CU973 related to the construction of the base layers and CU110 related to construction of the surface layers. The fair value of the surface layers is used to estimate the fair value of the resurfacing (which is treated as a replacement component in accordance with IPSAS 17). The estimated life of surface layers (i.e., six years) is also used to estimate the depreciation of the replacement component in years 9 and 10. The total initial fair value of the road is lower than the present value of the series of predetermined payments pertaining to the asset, where applicable.

IE6. The road base has an economic life of 25 years. Annual depreciation is taken by the grantor on a straight-line basis. It is therefore CU39 (973/25) for the base layers. The surface layers are depreciated over 6 years (years 3–8 for the original component, and starting in year 9 for the replacement component). Annual depreciation related to the surface layers is CU18 (CU110/6). There is no impairment in the value of the road over the term of the service concession arrangement.

IE7. The operator's cost of capital is not practicable to determine. The rate implicit in the service concession arrangement specific to the asset is 6.18%.

IE8. It is assumed that all cash flows take place at the end of the year.

IE9. It is assumed that the time value of money is not significant. Paragraph AG46 provides guidance on methods that may be appropriate where the time value of money is significant.

IE10. At the end of year 10, the arrangement will end. At the end of the arrangement, the operator will transfer the road to the grantor.

IE11. The total compensation to the operator under each of the three examples is inclusive of each of the components of the service concession arrangement and reflects the fair values for each of the services, which are set out in Exhibit 1.

IE12. The grantor's accounting policy for property, plant and equipment is to recognize such assets using the cost model specified in IPSAS 17.

Exhibit 1: Fair values of the components of the arrangement (currency units)

Contact Component	Fair Value
Road – base layers	973
Road – surface layers	110
Total FV of road	1,083
Annual service component	12
Effective interest rate	6.18%

Example 1: The Grantor makes a Predetermined Series of Payments to the Operator

Additional Terms

IE13. The terms of the arrangement require the grantor to pay the operator CU200 per year in years 3–10 for making the road available to the public. The total consideration (payment of CU200 in each of years 3–10) reflects the fair values for each of the services indicated in Exhibit 1. These payments are intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110.

Financial Statement Impact

IE14. The grantor initially recognizes the service concession asset as property, plant and equipment at its fair value (total CU1,083), comprised of CU973 related to construction of the base layers and CU110 related to construction of the surface layers. Depreciation is taken annually (CU57, comprised of CU39 for the base layers and CU18 for the surface layers).

IE15. The grantor initially recognizes a financial liability at fair value equal to the fair value of the asset in year 3 (CU1,083). Because the amount of the predetermined payment related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payment that reduces the liability. A finance charge at the implicit rate of 6.18% is recognized annually. The liability is subsequently measured at amortized cost, i.e., the amount initially recognized plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE16. The compensation for the road resurfacing is included in the predetermined series of payments. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of CU110/6 = CU18, beginning in year 9.

IE17. The compensation for maintenance and operating the road (CU12) is included in the predetermined series of payments. There is no cash flow impact related to this service expense; however, the grantor recognizes an expense annually.

IE18. The costs of services are accounted for in accordance with IPSAS 1.

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

IE19. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 1.1 to 1.3. In addition, Table 1.4 shows the changes in the financial liability.

Table 1.1 Cash flows (currency units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	–	–	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/ (outflow)	–	–	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

Table 1.2 Statement of financial performance (currency units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	–	–	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	–	–	(66)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(311)
Depreciation – base layers[2]	–	–	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(312)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(19)	(18)	(37)
Total depreciation	–	–	(57)	(58)	(57)	(57)	(58)	(57)	(58)	(57)	(459)
Annual surplus/ (deficit)	–	–	(135)	(129)	(120)	(112)	(104)	(94)	(92)	(80)	(866)

NOTES:

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9-10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.

[2] Although these Illustrative Examples use a straight-line depreciation method, it is not intended that this method be used in all cases. Paragraph 76 of IPSAS 17 requires that, "The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity." Likewise, for intangible assets, IPSAS 31 requires that, "The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life."

Table 1.3 Statement of financial position (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	–	973	934	895	856	817	778	739	700	661
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	91	73
Total Service concession asset	–	1,083	1,026	968	911	854	796	849	791	734
Cash	–	–	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	–	(1,083)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	–
Cumulative surplus/deficit	–	–	135	264	384	496	600	694	786	866
Net assets	–	–	–	–	–	–	–	–	–	–

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 17 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 1.2).
3. The financial liability is increased in year 8 to match the recognition of the new component of the service concession asset.

Table 1.4 Changes in Financial Liability (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	–	1,083	961	832	695	550	396	343	177
Liability recognized along with initial service concession asset	–	1,083	–	–	–	–	–	–	–	–
Portion of predetermined series of payments that reduces the liability	–	–	(122)	(129)	(137)	(145)	(154)	(163)	(166)	(177)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	110	–	–
Balance carried forward	–	1,083	961	832	695	550	396	343	177	–

Example 2: The Grantor Gives the Operator the Right to Charge Users a Toll

Additional Arrangement Terms

IE20. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of CU200 in each of years 3–10. The total consideration (tolls of CU200 in each of years 3–10) reflects the fair values for each of the services indicated in Exhibit 1, and is intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110.

Financial Statement Impact

IE21. The grantor initially recognizes the service concession asset as property, plant and equipment at its fair value (total CU1,083), comprised of CU973 related to construction of the base layers and CU110 related to construction of the surface layers. Depreciation is taken annually (CU57, comprised of CU39 for the base layers and CU18 for the surface layers).

IE22. As consideration for the service concession asset, the grantor recognizes a liability under the grant of a right to the operator model by granting the operator the right to collect tolls of CU200 in years 3–10.

IE23. The liability is reduced over years 3–10, and the grantor recognizes revenue on that basis because access to the service concession asset is expected to be provided evenly over the term of the service concession arrangement.

IE24. The compensation for the road resurfacing is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of CU110/6 = CU18, beginning in year 9.

IE25. The compensation for maintenance and operating the road (CU12) is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no financial statement impact related to this service expense. It does not affect cash flow because the grantor has no cash outflow. It is not recognized as an operating expense because the fair value of the asset and liability initially recognized do not include any service costs the operator may incur.

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

IE26. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 2.1 to 2.3. In addition, Table 2.4 shows the changes in the liability.

Table 2.1 Cash flows (currency units)

Because there are no payments made to the operator, there are no cash flow impacts for this example.

Table 2.2 Statement of financial performance (currency units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of liability)	–	–	149	149	149	149	149	149	150	149	1,193
Depreciation – base layers	–	–	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(312)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(19)	(18)	(37)
Depreciation – surface layers	–	–	(18)	(19)	(18)	(18)	(19)	(18)	(19)	(18)	(147)
Total depreciation	–	–	(57)	(58)	(57)	(57)	(58)	(57)	(58)	(57)	(459)
Annual surplus/(deficit)	–	–	92	91	92	92	91	92	92	92	734

NOTES:

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 2.3).
4. All revenue is recognized evenly over the term of the arrangement.

Table 2.3 Statement of financial position (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	–	973	934	895	856	817	778	739	700	661
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession	–	–	–	–	–	–	–	110	91	73

Year	1	2	3	4	5	6	7	8	9	10
asset – replacement surface layer										
Total Service concession asset	–	1,083	1,026	968	911	854	796	849	791	734
Cash	–	–	–	–	–	–	–	–	–	–
Liability	–	(1,083)	(934)	(785)	(636)	(487)	(338)	(299)	(149)	–
Cumulative surplus/deficit	–	–	(92)	(183)	(275)	(367)	(458)	(550)	(642)	(734)
Net assets	–	–	–	–	–	–	–	–	–	–

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 17 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession asset related to the resurfacing is recognized in year 8.
3. Years 9–10 reflect deprecation on this additional component (Table 2.2) over the estimated useful life of surface layers.
4. The liability is increased in year 8 by CU110 (CU338-CU135+CU110 = CU299) to match the recognition of the new component of the service concession asset.

Table 2.4 Changes in Liability (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	–	1,083	934	785	636	487	338	299	149
Liability recognized along with initial service concession asset	–	1,083	–	–	–	–	–	–	–	–
Revenue (reduction of liability)	–	–	(149)	(149)	(149)	(149)	(149)	(149)	(150)	(149)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	110	–	–
Balance carried forward	–	1,083	934	785	636	487	338	299	149	–

Example 3: The Grantor Makes a Predetermined Series of Payments to the Operator and Also Grants the Operator the Right to Charge Users a Toll for Use of the Road

Additional Arrangement Terms

IE27. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of CU100 in each of years 3–10. The arrangement also requires the grantor to make a predetermined series of payments to the operator of CU100 annually. The fair value of the right to collect tolls and the predetermined series of payments are considered to compensate the operator equally (i.e., 50% from each form of compensation to the operator).

Financial Statement Impact

IE28. The grantor initially recognizes the service concession asset as property, plant and equipment at its fair value (total CU1,083), comprised of CU973 related to construction of the base layers and CU110 related to construction of the surface layers. Depreciation is taken annually (CU 57, comprised of CU39 for the base layers and CU18 for the surface layers).

IE29. As consideration for the service concession asset, the grantor recognizes a liability (CU542) under the grant of a right to the operator model by granting the operator the right to collect tolls of CU100 in years 3–10.

IE30. The grantor's obligation related to the right granted to the operator to charge tolls and the predetermined payments are regarded as two separate items. Therefore in this arrangement it is necessary to divide the grantor's consideration to the operator into two parts—a liability and a financial liability.

IE31. The liability of CU100 is reduced over years 3–10, and the grantor recognizes revenue on the same basis because the tolls are expected to be earned evenly over the term of the service concession arrangement.

IE32. The grantor initially recognizes a financial liability at fair value equal to half of the fair value of the asset at the beginning of year 3 (CU541); the other half of the fair value of the asset at the beginning of year 3 is matched by the performance liability. Because the amount of the predetermined payments related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payments that reduces the liability. A finance charge at the implicit rate of 6.18% is recognized annually. The liability is subsequently measured at amortized cost, i.e., the amount initially recognized plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE33. The operator is compensated for the road resurfacing (CU110) equally through the tolls the operator expects to earn over the term of the service concession arrangement and the series of predetermined payments (i.e., 50% from each). There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of CU110/6 = CU18, beginning in year 9.

IE34. The operator is compensated for maintenance and operating the road (CU12) equally through the tolls the operator expects to earn over the term of the service concession arrangement and the predetermined payment (i.e., 50% from each). There is no direct cash flow impact related to this service expense because the grantor has no cash outflow. However, the grantor recognizes an expense annually for the portion of the compensation related to the series of predetermined payments (CU6). There is no financial statement impact for the remaining CU6 of this service expense. It is not recognized as an operating expense because the fair value of the asset and liability initially recognized do not include any service costs the operator may incur.

IE35. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 3.1 to 3.3. In addition, Table 3.4 shows the changes in the liability and Table 3.5 shows the changes in the financial liability.

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

Table 3.1 Cash flows (currency units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
Predetermined series of payments	–	–	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)
Net inflow/(outflow)	–	–	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)

Table 3.2 Statement of financial performance (currency units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
Revenue (reduction of liability)	–	–	74	75	74	75	75	75	75	74	597
Service expense	–	–	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(48)
Finance charge	–	–	(33)	(30)	(25)	(22)	(17)	(12)	(11)	(6)	(156)
Depreciation – base layers	–	–	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(312)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(19)	(18)	(37)
Total depreciation	–	–	(57)	(58)	(57)	(57)	(58)	(57)	(58)	(57)	(459)
Annual surplus/(deficit)	–	–	(22)	(19)	(14)	(10)	(6)	–	–	5	(663)
NOTES:											

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8 over the estimated useful life of surface layers (6 years).
3. The revenue (reduction of the liability) includes revenue from the additional liability (Table 3.3).
4. All revenue is recognized evenly over the term of the arrangement.

Table 3.3 Statement of financial position (currency units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Service concession asset – base layers	–	973	934	895	856	817	778	739	700	661
Service concession asset – surface layer	–	110	92	73	55	37	18	–	–	–
SCA asset – replacement surface layer	–	–	–	–	–	–	–	110	91	73
Total SCA asset	–	1,083	1,026	968	911	854	796	849	791	734
Cash	–	–	(100)	(200)	(300)	(400)	(500)	(600)	(700)	(800)
Liability	–	(542)	(468)	(393)	(319)	(244)	(169)	(149)	(74)	–
Financial liability	–	(541)	(480)	(416)	(347)	(275)	(198)	(171)	(88)	–
Cumulative surplus/deficit	–	–	22	41	55	65	71	71	71	66
Net assets	–	–	–	–	–	–	–	–	–	–

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 17 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 3.2).
3. The liability in year 8 reflects an increase of CU55 (CU169 - CU75 + CU55 = CU149) to match the recognition of the new component of the service concession asset.
4. The financial liability in year 8 reflects an increase of CU55 (CU198 + CU12 + CU6 + CU55 - CU100 = CU 171) to match the recognition of the new component of the service concession asset.

Table 3.4 Changes in Liability (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	–	542	468	393	319	244	169	149	74
Liability recognized along with initial Service concession asset	–	542	–	–	–	–	–	–	–	–
Revenue (reduction of liability)	–	–	(74)	(75)	(74)	(75)	(75)	(75)	(75)	(74)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	55	–	–
Balance carried forward	–	542	468	393	319	244	169	149	74	–

Table 3.5 Changes in Financial Liability (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	–	541	480	416	347	275	198	171	88
Liability recognized along with initial Service concession asset	–	541	–	–	–	–	–	–	–	–
Portion of predetermined series of payments that reduces the liability	–	–	(61)	(64)	(69)	(72)	(77)	(82)	(83)	(88)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	55	–	–
Balance carried forward	–	541	480	416	347	275	198	171	88	–



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Purpose

Following is a summary comparative analysis that shows the differences between ED 43 and the proposed final IPSAS.

ED 43 Reference	Amended Reference	Explanatory Notes
Throughout		References to "collect fees" (and similar) standardized to refer to "earn revenue."
Throughout		References standardized to "construct, develop, acquire, and upgrade" (and variations of each of these terms such as construction, development, acquisition, and upgrade)
Introduction		
IN1–IN10	–	Section deleted based on proposed ED 45 change.
Objective		
1	1	No change.
Definitions		Heading amended to reflect the IPSASB's tentative decision that definitions should be used in this draft Standard. Moved this section to follow scope to be consistent with other IPSASs, and amended to Definitions section. This section was changed from a description of terminology to a list of definitions as tentatively agreed by the IPSASB in June 2011.
2	AG3	This is a similar approach to that used in IPSAS 28. Example of upgrade moved to paragraph AG15.
3	8	New definition for operator. New definition for SCA, which incorporates wording from ED43.2, AG12 and AG15. The definition of a service concession asset has been amended so that it does not refer to other paragraphs within the draft Standard because definitions should stand alone.
Scope		Moved this section ahead of Definitions (former "Terminology" section) to be consistent with other IPSASs.

ED 43 Reference	Amended Reference	Explanatory Notes
4	2	No change to text however, paragraph location has been changed.
5	3	No change to text however, paragraph location has been changed.
6	4	No change to text however, paragraph location has been changed.
7	5	Reworded paragraph to improve readability.
8(a)	6(a)	No change to text however, paragraph location has been changed. Also incorporated into definition of service concession asset in new paragraph 8.
8(b)	6(b)	Amended text to clarify the meaning. Also incorporated into definition of service concession asset in new paragraph 8.
8(c)	6(c)	Amended text to clarify the meaning and last sentence of 8(c) moved to AG15. Also incorporated into definition of service concession asset in new paragraph 8.
8(d)	–	Deleted as now covered by the amended 6(c).
9	7	No change to text however, paragraph location has been changed.
Recognition and Measurement of a Service Concession Asset		
10	9	No change to the conditions for the recognition of a service concession asset except to clarify the lead-in wording relating to when an asset should be recognized as a service concession asset.
11	10	No change.
12	13	The order of paragraphs 12 and 13 in ED 43 has been reversed to improve the flow of this section (i.e., recognized assets addressed first, followed by reclassified assets). The text of this paragraph has been amended to remove duplication.
13	12	The order of paragraphs 12 and 13 in ED 43 has been reversed to improve the flow of this section. Reference added to "after initial recognition" to clarify subsequent measurement.
14	14	Additional wording to introduce the financial liability model and grant of a right to the operator model.

ED 43 Reference	Amended Reference	Explanatory Notes
15	11	Moved up within this section to improve flow of paragraphs. The word "original" has been deleted from the sentence as it has the potential to confuse.
16	AG26	This paragraph is an explanation of paragraph 11 (ED 43.15) and so has been moved to the Application Guidance to improve the flow of the draft Standard.
17	AG29	This paragraph is a further explanation of paragraph 11 (ED 43.15) and so have been moved to the Application Guidance to improve the flow of the draft Standard.
18	–	Deleted to remove duplication with paragraph 12 (ED 43.13) – measurement after recognition is included in the phrase "accounted for" in paragraph 12.
Recognition and Measurement of Liabilities		
19	15	The second sentence has been deleted because the draft Standard now has additional paragraphs dealing separately with each type of liability arising from a service concession arrangement. **Note for IPSAB Discussion: This paragraph was proposed for deletion at the June 2011 IPSASB meeting. Staff thought it important to highlight the liability recognition and measurement before discussing the two models.**
20	16	No change except to clarify that the initial value of the liability (= asset cost) is adjusted for any cash or cash equivalents exchanged. **Note for IPSASB Discussion: This paragraph was proposed for deletion at the June 2011 IPSASB meeting. Staff thought it important to highlight the liability recognition and measurement before discussing the two models.**
AG24	17	New first sentence to introduce the concept that the nature of the liability is based on the nature of the consideration exchanged. Moved the first sentence of AG24 to be included in the draft Standard paragraphs to highlight that the binding arrangement should be referred to when making the assessment of the nature of the liability.
Financial Liability Model		New heading inserted so that it is clear which model is being discussed.

ED 43 Reference	Amended Reference	Explanatory Notes
21 First sentence	18	The first sentence has been amended to refer specifically to the conditions required for a liability to be a financial liability (i.e., the financial liability model). Second sentence incorporated into para. 19
–	19	New paragraph to expand on paragraph 18 to explain what an "unconditional obligation" means. This paragraph is based on IFRIC 12.16.
21 Second sentence	20	Former requirement changed to guidance. The second sentence of paragraph 21 has been moved to a separate paragraph and editorial revisions have been made to the wording.
Expenses under the Financial Liability Model		New heading inserted.
21 Third sentence	21	The third sentence of paragraph 21 has been moved to a separate paragraph and editorial revisions have been made to the wording.
22	–	Deleted and replaced with new paragraph 24 relating to the "grant of a right to the operator" model.
23	–	Deleted and replaced with new paragraph 24 relating to the "grant of a right to the operator" model.
–	23	New paragraph to clarify how the amount of the service component of a service concession arrangement is determined under the financial liability model.
Grant of a Right to the Operator Model		New heading inserted so that it is clear which model is being discussed.
Accounting for the Liability under the Grant of a Right to the Operator Model		New heading.
–	24	New paragraph 24 relating to the "grant of a right to the operator" model.
Revenue Recognition under the Grant of a Right to the Operator Model		New heading.
–	25	New – to clarify revenue recognition principle for "grant of a right to the operator" model.
Dividing the Arrangement		New heading and section inserted so that it is clear what to do when the

ED 43 Reference	Amended Reference	Explanatory Notes
		arrangement contains components of both types of liability.
–	26	New paragraph to explicitly explain how to account for a service concession arrangement that has both types of liability. Based on IFRIC 12.18.
–	27	New paragraph to explicitly explain that for each type of liability, the grantor must apply the requirements relating to each model.
Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets		New heading and section inserted so that it is clear what to do when the arrangement has liabilities that do not meet the criteria of the financial liability model or the grant of a right to the operator model.
–	28	New paragraph to address other liabilities, contingencies that may arise under SCAs and to provide link to the related Application Guidance.
Other Revenues		Amended heading and section so that it is clear what to do when the arrangement has other revenues and expenses that do not meet the criteria of the financial liability model or the grant of a right to the operator model.
24	29	Paragraph clarified to apply only to revenues that do not arise under the grant of a right to the operator model.
25	22	This paragraph has been moved up to the section on the financial liability model as it includes the requirements on what to do with the finance charge and service components of a service concession arrangement as they arise from the financial liability model.
Presentation and Disclosure		
26	30	Amended to refer to IPSAS 1 for all aspects of SCA disclosure. **Note for IPSASB Discussion**: **Staff suggests this paragraph deleted as it doesn't add anything. It was discussed at the June IPSASB meeting.**
27	31	No change, except for editorials.
28	32	No change (SIC-29 wording), except for editorials.
–	33	New paragraph to explain that disclosure requirements in other IPSASs may also be relevant to a service concession arrangement.
Transition		

ED 43 Reference	Amended Reference	Explanatory Notes
29	34	No change.
30	35	This transitional provision paragraph has been amended to require retrospective application for service concession assets that have not previously been recognized, giving the preparer 2 options as to how far back in time the restatement needs to be. Deleted reference to "accrual basis of accounting" to promote consistency with entities that followed the cash basis and entities adopting IPSASs for the first time.
Effective Date		
31	36	Added an effective date: January 1, 2014. Deleted references to IPSAS 1, IPSAS 19, IPSASs 28-31 as this paragraph should only refer to those IPSASs amended by this Standard.
32	37	Minor grammar changes for standard IPSAS wording (per 2010 Handbook).

ED 43 Reference	Amended Reference	Explanatory Notes
Definitions		Moved this section to follow scope to be consistent with other IPSASs, and amended to Definitions section.
AG1	AG3	No change, except for editorials relating to change from terminology to definitions, and to add sub-paragraph (e) which is text deleted from ED 43, paragraph 2.
AG2	AG4	No change, except for editorials relating to change from terminology to definitions.
Scope		Moved this section ahead of Definitions (former "Terminology" section) to be consistent with other IPSASs.
AG3	AG1	Amended to reflect the IPSASB's tentative decision relating to the deletion of the term "performance obligation."
AG4	AG2	No change.
AG5	AG5	No change.

ED 43 Reference	Amended Reference	Explanatory Notes
AG6	AG6	No change, except for editorials.
AG7	AG7	No change, except for editorials.
AG8	AG8	Amended as tentatively agreed by the IPSASB at its June meeting, see AP 4.1, page 15, question 3.1.
AG9	AG9	No change, except for editorials.
AG10	AG10	No change.
AG11	AG11	No change, except for editorials.
AG12	AG12	No change.
AG13	AG13	No change.
Recognition and Initial Measurement of a Service Concession Asset		
Existing Asset of the Grantor		
AG14	AG14	No change.
AG15	AG15	New first and second sentences and fourth and fifth sentences added to clarify guidance as agreed to by the IPSASB at its June meeting, see AP 4.1, page 22, questions 4.1 and 4.4. New third sentence moved from former ED 43.8(c) as it explains the requirements in the Standard. Example of upgrade moved from former paragraph 2)
AG16	AG16	No change.
AG17	AG17	Added a further explanation to deal with the permanent or temporary transfer of an asset to the operator, as directed by the IPSASB at its June meeting.
AG18	AG18	No change.
Existing Asset of the Operator		
AG19	AG19	New first sentence to distinguish cases where the operator provides an asset for the SCA that is not constructed or developed (Note: this is not the same as the existing asset of the grantor circumstance). Wording change in second

ED 43 Reference	Amended Reference	Explanatory Notes
		sentence for consistency with para. 6(b) change.
Constructed or Developed Asset		
AG20 First sentence	AG20	Added to first sentence to set out criteria in IPSAS 17 and IPSAS 31 on the recognition of an asset as agreed to by the IPSASB at its June meeting, see AP 4.1, pages 26 and 27, question 4.6.
–	AG21	New paragraph further expanding guidance on asset recognition when asset is constructed/developed as agreed to by the IPSASB at its June meeting, see AP 4.1, pages 26 and 27, question 4.6.
–	AG22	New paragraph further expanding guidance on asset recognition when asset is constructed/developed as agreed to by the IPSASB at its June meeting, see AP 4.1, pages 26 and 27, question 4.6.
AG20 Rest of paragraph	AG23	Amended paragraph to improve explanation as agreed to by the IPSASB at its June meeting, see AP 4.1, pages 26 and 27, question 4.6.
Measurement of Service Concession Assets		
–	AG24	New paragraph to describe application of fair value.
–	AG25	New paragraph to describe application of fair value.
Types of Compensation	*Types of Compensation*	*Types of Compensation*
AG21	AG26	Amended by moving the first sentence to paragraph 17 (new).
AG22	AG27	No change, except for editorials.
Separable Payments		
16	AG28	Moved from paragraph 16. Amended for consistency with paragraph AG30 to indicate that if the present value of payments is greater than fair value, the service concession asset is initially measured at fair value.
AG23	AG29	No change.
AG24	AG30	No change.
Inseparable Payments		

ED 43 Reference	Amended Reference	Explanatory Notes
17	AG31	Moved from paragraph 17.
AG25	AG32	No change.
Operator Receives Other Forms of Compensation		
AG26	AG33	Paragraph references within IPSAS 17 and IPSAS 31 added for clarity.
AG27	AG34	No change, except for editorials.
Subsequent Measurement		
–	AG35	New paragraph to outline the subsequent measurement of the asset. Specific reference to impairment requirements in IPSAS 21 and IPSAS 26 as agreed to by the IPSASB at its June meeting, see AP 4.1, page 33, question 4.10.
Recognition and Measurement of Liabilities		
AG28	AG36	No change.
The Financial Liability Model		New heading.
AG29	AG37	Amended to explain only the financial liability model and therefore references to performance obligation have been deleted. New second sentence to explain unconditional obligation.
–	AG38	New paragraph to indicate IPSASs 28-30 apply by analogy.
AG30	–	Deleted because it repeats former AG56 (now AG48).
		Deleted heading.
AG31	AG39	Removed detailed paragraph references in last sentence.
AG32	AG40	No change.
Expenses under the Financial Liability Model		New heading.
AG33	AG41	No change
AG34	AG42	No change.
AG35	AG43	No change.
AG36	AG44	No change.

ED 43 Reference	Amended Reference	Explanatory Notes
AG37	AG45	No change.
Grant of a Right to the Operator Model		Amended heading.
AG38	AG48	No change, except for editorials.
AG39	–	Deleted as no longer correct.
		Deleted heading.
AG40	AG49	Amended paragraph to remove reference to "performance obligation."
–	AG50	New – to address expenses when there is a shadow toll.
Dividing the Arrangement		(IFRIC 12 terminology)
AG41	AG51	Amended to reflect decision to remove reference to "performance obligation" and to delete the last two sentences as this guidance is covered in paragraphs 20, and 24 and 25, respectively.
Other Revenues		Amended heading to address only revenues other than those recognized in accordance with the "grant of a right to the operator" model.
AG42	AG56	No change, except for editorials.
AG43	AG57	No change.
AG44	AG58	No change, except for editorials.
AG45	AG59	No change.
AG46	AG60	No change.
AG47	AG61	Amended to reflect decision to remove reference to "performance obligation."
AG48	AG62	No change, except for editorials.
AG49	AG63	No change.
AG50	AG64	No change.
AG51	AG65	No change.
Expenses		Deleted heading.

ED 43 Reference	Amended Reference	Explanatory Notes
AG52	AG46	Moved from the Expense Recognition section to the section on Expenses under the Financial Liability Model as that is the topic to which it relates.
AG53	AG47	Moved from the Expense Recognition section to the section on Expenses under the Financial Liability Model as that is the topic to which it relates.
AG54	–	Deleted; not required to duplicate IPSAS 17 requirements.
AG55	–	Deleted; not required to duplicate IPSAS 17 requirements.
Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets		Amended heading to reflect wider discussion in this section.
AG56	AG52	No change.
AG57	AG53	Amended to include guidance on where to find the requirements relating to financial guarantee contracts and insurance contracts.
AG58	AG54	Consequential amendment as a result of amending ED 43.AG57 (new AG49).
AG59	AG55	No change.
Presentation and Disclosure		
AG60	AG66	No change.
AG61	AG67	No change, except for editorials.
Transition		New heading and section which reflects the option staff recommends in AP 3.4.
–	AG68	New paragraph to give guidance on how to apply paragraph 36. Text is based on AP 4.1, pages 47 and 48 of the June meeting.
–	AG69	New paragraph based on AP 4.1, pages 47 and 48 of the June meeting.
–	AG70	New paragraph based on AP 4.1, pages 47 and 48 of the June meeting.
–	AG71	New paragraph based on AP 4.1, pages 47 and 48 of the June meeting.
BC1	BC1	No change.
BC2	BC2	Clarified explanation.

ED 43 Reference	Amended Reference	Explanatory Notes
BC3	BC3	Clarified explanation.
BC4	BC4	Clarified explanation.
BC5	–	No change.
BC6	BC6	Added reference to "the grantor" regarding "public-to-public" arrangements, as suggested by respondents to ED 43.
–	BC7	New; based on IFRIC 12.BC14.
BC7	BC8	Heading amended to reflect the IPSASB's tentative decision that definitions should be used in this draft Standard. Amended to explain IPSASB decision to include definitions.
BC8	BC9	Editorial change (paragraph references within paragraph).
BC9	BC10	Amended to explain the IPSASB's decision regarding definition of "binding arrangement".
BC10	BC11	Deleted reference to "related liability".
BC11	BC12	Clarification added.
BC12	BC13	IPSASB conclusion added.
BC13	BC14	No change.
BC14	BC15	No change.
–	BC16	New – explanation of inclusion of guidance on "regulates".
BC15	BC17	Replaced wording with clarification of types of compensation.
–	BC18-BC23	New – explanation of changes from ED 43.
	BC24	New – introduction of "financial liability" model.
BC16	BC25	Editorial changes.
BC17	–	Deleted; replaced by explanation of "grant of a right to the operator" model rationale (see BC21-BC25).
–	BC26-BC36	New – explanation of "grant of a right to the operator" model rationale.

ED 43 Reference	Amended Reference	Explanatory Notes
BC18	BC37	Editorial change (paragraph references within paragraph)
BC19	BC38	No change.
BC20	BC39	No change.
BC21	BC40	No change.
BC22	BC41	Added "reporting" preceding "period" for clarity.
–	BC42-BC45	New – explanation of clarification of transitional provisions.
–	BC46	New – explanation of effective date.
IE (throughout)		Changed references from "performance obligation" to "liability".
IE		Added footnote re: depreciation methods per IPSASB's prior directions.

International Public Sector Accounting Standards Board

IPSAS 32
Month 20YY

Service Concession Arrangements: Grantor



International Federation of Accountants

IPSAS 32—SERVICE CONCESSION ARRANGEMENTS: GRANTOR

Acknowledgment

This International Public Sector Accounting Standard (IPSAS) sets out the accounting requirements of the grantor in a service concession arrangement. It is adapted from Interpretation 12 (IFRIC 12), *Service Concession Arrangements*, developed by the International Financial Reporting Interpretations Committee and published by the International Accounting Standards Board (IASB). IFRIC 12 sets out the accounting requirements of the operator in a service concession arrangement. This IPSAS also contains extracts from the Interpretation 29 (SIC-29), *Service Concession Arrangements: Disclosures*, developed by the Standing Interpretations Committee and published by the IASB. Extracts from IFRIC 12 and SIC-29 are reproduced in this publication of the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS) Foundation.

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Moved text is also annotated[JK1].

Month 20YY

IPSAS 32—SERVICE CONCESSION ARRANGEMENTS: GRANTOR

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International Public Sector Accounting Standard (IPSAS) XX ~~(ED 43)~~, *Service Concession Arrangements: Grantor* is set out in paragraphs 1–~~32~~37. All the paragraphs have equal authority. IPSAS XX ~~(ED 43)~~ should be read in the context of its objective, the Basis for Conclusions, and the "Preface to International Public Sector Accounting Standards." IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction [JK2]

IN1. IPSAS XX (ED 43) prescribes the accounting treatment by the grantor for service concession arrangements.

IN2. This Standard is intended to "mirror" Interpretation 12 of the International Financial Reporting Interpretations Committee, "Service Concession Arrangements" (IFRIC 12), which gives guidance on the accounting by operators in service concession arrangements. Accordingly, the scope, principle for recognition of an asset, and terminology are derived from IFRIC 12. The detailed accounting principles for the service concession asset and related liability, revenues, and expenses are set out in the following Standards:

(a) IPSAS 1, "Presentation of Financial Statements";

(b) IPSAS 9, "Revenue from Exchange Transactions";

(c) IPSAS 12, "Inventories";

(d) IPSAS 13, "Leases";

(e) IPSAS 17, "Property, Plant and Equipment";

(f) IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets";

(g) IPSAS 23, "Revenue from Non-Exchange Transactions";

(h) IPSAS 28, "Financial Instruments: Presentation";

(i) IPSAS 29, "Financial Instruments: Recognition and Measurement";

(j) IPSAS 30, "Financial Instruments: Disclosures"; and

(k) IPSAS 31, "Intangible Assets".

IN3. This Standard requires the grantor to recognize assets used in service concession arrangements as service concession assets when specified conditions for recognition are met and to recognize certain liabilities and expenses associated with the service concession arrangement. The Standard also specifies how to measure the carrying amount of service concession assets and liabilities, how to measure revenues and expenses arising from the service concession arrangement and it requires specified disclosures about the service concession arrangements.

IN4. In many countries, assets used for public services – such as roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, permanent installations for military and other operations, and other non-current tangible or intangible assets used for administrative purposes in delivering public services – have traditionally been constructed or developed, operated, maintained, and financed by the public sector.

IN5. In some countries, governments have introduced various types of binding arrangements involving private sector participation in the development, financing, operation and/or maintenance of such assets. An arrangement within the scope of this Standard typically involves an operator constructing or developing an asset used to provide a public service or upgrading an existing asset (e.g., by increasing its capacity) and operating and maintaining

~~the asset for a specified period of time. The operator is compensated for its services over the period of the arrangement. The binding arrangement sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.~~

~~IN6. This Standard does not apply to all arrangements that include private sector participation. Arrangements that are not within the scope of this Standard would be accounted for using other IPSASs, as appropriate to their specific terms and conditions.~~

~~IN7. This Standard adopts the same description "service concession arrangement" as used in IFRIC 12.~~

~~IN8. This Standard is intended to apply to the same types of assets as those addressed in IFRIC 12. IFRIC 12 refers to the assets used in a service concession arrangement as "infrastructure." However, to avoid confusion with terminology already used in the public sector, this Standard refers to such assets as "service concession assets."~~

~~IN9. For arrangements within the scope of this Standard, the "grantor" is the entity that grants the service concession to the operator. IPSASs apply to all public sector entities other than GBEs, thus this Standard does not specify the accounting for private sector grantors.~~

~~IN10. This Standard specifies disclosures for certain components of service concession arrangements that are additional to the disclosures required in other Standards. The disclosure requirements in this Standard are consistent with those in Interpretation 29 of the Standing Interpretations Committee of the IASB, "Service Concession Arrangements: Disclosures" (SIC-29).~~

Objective

1. The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

Scope[JK3] (see paragraphs AG1–AG2)

42. **A grantor that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for service concession arrangements.**

53. **This Standard applies to all public sector entities other than Government Business Enterprises.**

64. The "*Preface to International Public Sector Accounting Standards*" issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, *Presentation of Financial Statements*.

75. To beArrangements within the scope of this Standard,[1] an arrangement must be binding on the parties to the arrangement and obligeinvolve the operator to providinge the public services related to the service concession asset to the public on behalf of the grantor. Arrangements outside the scope of this Standard are those that do not involve the delivery of public services fall outside the scope of this Standard, as do and arrangements that involve service and management components where the asset is not controlled by the grantor, as specified in paragraph 10, or paragraph 11 for a whole-of-life asset (e.g., outsourcing, service contracts, or privatization).

86. This Standard applies to the following assets used for the purpose of a service concession arrangement, when they meet the conditions for recognition specified in paragraph 10 (or paragraph 11 for a whole-of-life asset), or for reclassification specified in paragraph 12:

(a) Assets that the operator constructs or develops, or acquires from a third party for the purpose of the service concession arrangement;

(b) Existing assets of the operator to which the operator gives the grantor accessuses for the purpose of the service concession arrangement; and

(c) Existing assets of the grantor (including any upgrades to the asset) to which the grantor gives the operator upgradesaccess for the purpose of the service concession arrangement. Only the cost of the upgrade is recognized as a service concession asset in accordance with paragraph 10, or paragraph 11 for a whole-of-life asset)[JK4].; and

(d) Existing assets of the grantor to which the grantor gives the operator access for the purpose of the service concession arrangement and of which the grantor retains control, as specified in paragraph 10 (or paragraph 11 for a whole-of-life asset). Such assets are reclassified as service concession assets in accordance with paragraph 12.

[1] Paragraphs AG3–AG13 provide guidance on determining whether, and to what extent, service concession arrangements are within the scope of this Standard.

~~9~~7. This Standard does not specify the accounting by operators (see the relevant international or national accounting standard dealing with accounting for service concession arrangements by operators).

~~Terminology~~Definitions (see paragraphs AG3–AG4)

~~2.~~ [JK5] ~~A service concession arrangement typically involves an operator constructing or developing the asset used to provide the public service or upgrading an existing asset (e.g., by increasing its capacity) and operating and maintaining the asset for a specified period of time. The operator is compensated for its services over the period of the arrangement. The arrangement is governed by a binding arrangement that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.~~ [JK6] ~~The service concession arrangement is binding on the parties to the arrangement and obliges the operator to provide the public services on behalf of the public sector entity.~~

~~3~~8. **The following term~~in~~s~~ology is~~ are used in this Standard with the meanings specified:**

A binding arrangement, for the purposes of this Standard, describes contracts and other arrangements that confer similar rights and obligations on the parties to it as if they were in the form of a contract.

A grantor is the entity that grants the service concession to the operator.

An operator is the entity that uses the service concession asset to provide public services subject to the grantor's control of the asset.

A service concession arrangement [JK7] ~~**typically involves**~~**is a binding arrangement between a grantor and an operator in which:**

(a) ~~**an**~~**The operator ~~constructing or developing~~uses the service concession asset ~~used~~ to provide ~~the~~a public service on behalf of the grantor or upgrades~~ing~~ an existing asset ~~(e.g., by increasing its capacity) and operates~~ing ~~and maintaining~~ the asset for a specified period of time; and~~.**

(b) ~~**The service concession arrangement is binding on the parties to the arrangement and obliges the operator to provide the public services on behalf of the public sector entity.**~~**The operator is compensated for its services over the period of the service concession arrangement.**

A service concession asset is an asset used to provide public services in a service concession arrangement ~~that meets the conditions for recognition set out in paragraph 10 (or paragraph 11 for a whole-of-life asset)~~ that:

(a) Is provided by the operator which:

(i) The operator constructs, develops, or acquires from a third party; or

(ii) Is an existing asset of the operator; or

(b) Is provided by the grantor which:

(i) Is an existing asset of the grantor; or

(ii) Is an upgrade to an existing asset of the grantor.

Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

~~Scope~~[JK8]

~~4. A grantor that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for service concession arrangements.~~

~~5. This Standard applies to all public sector entities other than Government Business Enterprises.~~

~~6. The "Preface to International Public Sector Accounting Standards" issued by the IPSASB explains that Government Business Enterprises (GBEs) apply IFRSs issued by the IASB. GBEs are defined in IPSAS 1, "Presentation of Financial Statements."~~

~~7. To be within the scope of this Standard,[2] an arrangement must be binding on the parties to the arrangement and oblige the operator to provide the public services related to the service concession asset to the public on behalf of the grantor. Arrangements that do not involve the delivery of public services fall outside the scope of this Standard, as do arrangements that involve service and management components where the asset is not controlled by the grantor, as specified in paragraph 10, or paragraph 11 for a whole-of-life asset (e.g., outsourcing, service contracts, or privatization).~~

~~8. This Standard applies to the following assets, when they meet the conditions for recognition specified in paragraph 10 (or paragraph 11 for a whole-of-life asset), or for reclassification specified in paragraph 12:~~

~~(e)~~(d) ~~Assets that the operator constructs or develops, or acquires from a third party for the purpose of the service concession arrangement;~~

~~(f)~~(e) ~~Existing assets of the operator to which the operator gives the grantor access for the purpose of the service concession arrangement;~~

~~(g)~~(f) ~~Existing assets of the grantor which the operator upgrades for the purpose of the service concession arrangement. Only the cost of the upgrade is recognized as a service concession asset in accordance with paragraph 10, or paragraph 11 for a whole-of-life asset); and~~

~~(h)~~(g) ~~Existing assets of the grantor to which the grantor gives the operator access for the purpose of the service concession arrangement and of which the grantor retains control, as specified in paragraph 10 (or paragraph 11 for a whole-of-life asset). Such assets are reclassified as service concession assets in accordance with paragraph 12.~~

~~[2] Paragraphs AG3–AG13 provide guidance on determining whether, and to what extent, service concession arrangements are within the scope of this Standard.~~

~~9. This Standard does not specify the accounting by operators (see the relevant international or national accounting standard dealing with accounting for service concession arrangements by operators).~~

Recognition and Measurement of a Service Concession Asset (see paragraphs AG5–AG35)

~~10~~9. **The grantor shall recognize an asset provided by the operator and any upgrades to an existing asset of the grantor as a service concession asset ~~in respect of an asset specified in paragraphs 8(a), 8(b) and 8(c); and shall reclassify an asset specified in paragraph 8(d)~~ if:**

(a) **The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and**

(b) **The grantor controls—through ownership, beneficial entitlement or otherwise—any significant residual interest in the asset at the end of the term of the arrangement.**

10~~1~~. **This Standard applies to an asset used in a service concession arrangement for its entire useful life (a "whole-of-life" asset) if the condition in paragraph ~~10~~9(a) is met.**

~~15~~11. [JK9] **The grantor shall initially measure the ~~original~~ service concession asset recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) at its fair value.**

~~13~~2. [JK10] **After initial recognition, a service concession asset ~~The service concession asset recognized in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset)~~ shall be accounted for as a separate class of assets in accordance with IPSAS 17, *Property, Plant, and Equipment,* or IPSAS 31, *Intangible Assets,* as appropriate.**

13. **Where an existing asset of the grantor ~~specified in paragraph 8(d)~~ meets the conditions specified in paragraph ~~10~~ 9 (or paragraph ~~11~~ 10 for a whole-of-life asset), the grantor shall ~~not recognize the asset as a service concession asset in accordance with this Standard. The grantor shall~~ reclassify the existing asset as a service concession asset ~~for reporting purposes and disclose the reclassification in accordance with paragraph 27~~. The reclassified service concession asset shall continue to be accounted for as a separate class of assets in accordance with IPSAS 17~~, "Property, Plant and Equipment"~~ or IPSAS 31, ~~"Intangible Assets"~~as appropriate.**

~~13.~~ [JK11] ~~**The service concession asset recognized in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset) shall be accounted for in accordance with IPSAS 17 or IPSAS 31,[3] as appropriate.**~~

14. In exchange for the service concession asset, t~~T~~he grantor may compensate the operator for the service concession asset by any combination of:

(a) Making payments to the operator (the "financial liability" model);

~~[3] Paragraph AG20 provides guidance for cases when the service concession asset is constructed or developed.~~

(b) Compensating the operator by other means such as (the "grant of a right to the operator" model):

(i) Granting the operator the right to ~~collect fees~~earn revenue from third-party users of the service concession asset; or

(ii) Granting the operator access to another revenue-generating asset for the operator's use (e.g., a private wing of a hospital where the remainder of the hospital is used by the grantor to treat public patients or a private parking facility adjacent to a public facility).

~~15. [JK12]**The grantor shall initially measure the original service concession asset at its fair value.**~~

~~16.[JK13] Where the grantor compensates the operator for the service concession asset by making payments, and the asset and service portions of the payments by the grantor to the operator are separable, the fair value in paragraph 15 is the fair value of the asset portion of the payments.~~

~~17.[JK14] Where the asset and service portions of payments by the grantor to the operator are not separable, the fair value is determined using estimation techniques.~~

~~18. **After recognition as a service concession asset, the grantor shall measure the service concession asset in accordance with the requirements in IPSAS 17 or IPSAS 31, as appropriate.**~~

Recognition and Measurement of Liabilities (see paragraphs AG36–AG51)

~~19~~15. **When the grantor recognizes a service concession asset in accordance with paragraph ~~10~~ 9 (or paragraph ~~11~~ 10 for a whole-of-life asset), the grantor shall also recognize a liability. ~~The liability recognized may be any combination of a financial liability and a performance obligation.~~**

~~20~~16. **The liability recognized in accordance with paragraph ~~19~~ 15 shall be initially measured at the same amount as the service concession asset measured in accordance with paragraph~~s 15–17~~ 11, adjusted by the amount of any cash or cash equivalents from the grantor to the operator, or by the operator to the grantor.**

17. [JK15]The nature of the liability recognized is based on the nature of the consideration exchanged between the grantor and the operator. The nature of the consideration given by the grantor to the operator is determined by reference to the terms of the binding arrangement and, when relevant, contract law.

Financial Liability Model (see paragraphs AG37– AG47)

~~21~~18. **When the grantor ~~compensates~~ has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset~~ by making payments~~, the grantor shall account for the liability recognized in accordance with paragraph ~~19~~ 15 a~~i~~s a financial liability.**

19. The grantor has an unconditional obligation to pay cash if it has guaranteed to pay the operator:

(a) Specified or determinable amounts; or

(b) The shortfall, if any, between amounts received by the operator from users of the public service and any specified or determinable amounts referred to in paragraph 19(a), even if the payment is contingent on the operator ensuring that the service concession asset meets specified quality or efficiency requirements.

20. ~~The grantor shall subsequently account for the financial liability in accordance with~~ IPSAS 28, *Financial Instruments: Presentation*, IPSAS 29, *Financial Instruments: Recognition and Measurement*, and IPSAS 30, *Financial Instruments: Disclosures* apply to the financial liability recognized under paragraph 15.

21. **The grantor shall allocate the payments to the operator and account for them according to their substance as a reduction in the liability recognized in paragraph ~~19~~15, a finance charge, and a service ~~portions~~component.**

22.~~25.~~[JK16] **The finance charge and service components of a service concession arrangement determined in accordance with paragraph 21 shall be accounted for as expenses ~~in accordance with IPSAS 1, "*Presentation of Financial Statements*."~~**

23. **Where the amounts are separately identifiable the cost of the service component shall be allocated by reference to the relative fair values of the service concession asset and the services received. Where the amounts are not separately identifiable, each component is determined using estimation techniques.**

Grant of a Right to the Operator Model (see paragraphs AG48– AG50)

~~22. When the grantor compensates the operator by granting the operator the right to collect fees from users of the service concession asset or by granting the operator access to another revenue-generating asset for its use, the liability recognized in accordance with paragraph 19 is a performance obligation. The grantor shall subsequently account for the performance obligation in accordance with IPSAS 19, "*Provisions, Contingent Liabilities and Contingent Assets*."~~

~~23. When the operator compensates the grantor for the right to use the service concession asset, either by provision of the service concession asset or by making payments to the grantor, the liability recognized by the grantor in accordance with paragraph 19 is a performance obligation. The grantor shall account for the performance obligation in accordance with IPSAS 19.~~

24. **Where the grantor recognizes a service concession asset and, does not have an unconditional obligation to pay cash or another financial asset to the operator, the grantor shall recognize a liability. The liability represents the unearned portion of the revenue that arises from the exchange of assets between the grantor and the operator.**

25. **The grantor shall recognize revenue and reduce the liability recognized in paragraph 24 in accordance with the economic substance of the service concession arrangement.**

Dividing the Arrangement (see paragraph AG51)

26. **If the grantor pays for the construction, development, acquisition, or upgrade services partly by a financial liability and partly by the grant of a right to the**

operator, it is necessary to account separately for each liability. The amount initially recognized for the total liability shall be recognized initially at the same amount as the amount specified in paragraph 16.

27. **The grantor shall subsequently account for each liability in accordance with paragraphs 18–25.**

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets (see paragraphs AG52–AG55)

28. **The grantor shall account for other liabilities, commitments, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, IPSAS 28, IPSAS 29, and IPSAS 30.**

~~Recognition and Measurement of~~Other Revenues (see paragraphs AG56–AG65)

29~~24~~. **The grantor shall account for revenues from a service concession arrangement, other than those specified in paragraphs 24–25, in accordance with IPSAS 9, *Revenue from Exchange Transactions*.**

~~Recognition and Measurement of Expenses~~

Presentation and Disclosure (see paragraphs AG66–AG67)

26~~30~~. **The grantor shall ~~classify a service concession asset recognized in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset), or reclassified in accordance with paragraph 12 as a non-current asset~~ present information in accordance with IPSAS 1.**

27~~31~~. **All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. A grantor shall disclose the following information in respect of service concession arrangements in each reporting period:**

(a) **A description of the arrangement;**

(b) **Significant terms of the arrangement that may affect the amount, timing, and certainty of future cash flows (e.g., the period of the concession, re-pricing dates, and the basis upon which re-pricing or re-negotiation is determined);**

(c) **The nature and extent (e.g., quantity, time period, or amount, as appropriate) of:**

(i) **Rights to use specified assets;**

(ii) **Rights to expect the operator to provide specified services in relation to the service concession arrangement;**

(iii) **Service concession assets recognized as assets during the reporting period, including existing assets of the grantor reclassified as service concession assets;**

(iv) **Rights to receive specified assets at the end of the service concession arrangement;**

(v) **Renewal and termination options;**

(vi) **Other rights and obligations (e.g., major overhaul of the service concession asset~~, financial and performance obligations~~); and**

(vii) **Obligations to provide the operator with access to service concession assets or other revenue-generating assets; and**

(d) **Changes in the arrangement occurring during the ~~accounting~~reporting period.**

~~28~~32. The disclosures required in accordance with paragraph ~~27~~ 33 are provided individually for each material service concession arrangement or in aggregate for each class of service concession arrangements. A class is a grouping of service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications or water treatment services). This disclosure by class of service concession asset is in addition to that required in paragraph 12 by class of asset. For example, for the purposes of paragraph 12 a toll bridge may be grouped with other bridges. For the purposes of this paragraph, the toll bridge may be grouped with toll roads.

33. In addition to the disclosures outlined in paragraphs 31 and 32, the grantor also follows the relevant presentation and disclosure requirements in IPSAS1, IPSAS 9, IPSAS 17, IPSAS 19, IPSAS 28, IPSAS 30, and IPSAS 31 as they pertain to assets, liabilities, revenues, and expenses recognized under this Standard.

Transition (see paragraphs AG68–AG71)

~~29~~34. **An entity that has previously recognized service concession assets and related liabilities, revenues, and expenses shall apply this Standard retrospectively in accordance with IPSAS 3, "*Accounting Policies, Changes in Accounting Estimates and Errors*."**

~~30~~35. **An entity that has not previously recognized service concession assets and related liabilities, revenues, and expenses ~~and uses the accrual basis of accounting~~ shall either:**

(a) **A~~a~~pply this Standard ~~prospectively. However,~~ retrospectively in accordance with IPSAS 3; or ~~application is permitted~~**

~~(a)~~(b) **Elect to recognize and measure service concession assets and related liabilities at the beginning of the earliest period for which comparative information is presented in the financial statements.**

Effective Date

36~~1~~. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after ~~MM~~ January 1~~DD~~, ~~YYYY~~2014. Earlier application is encouraged. If an entity applies this Standard for a period beginning before ~~MM~~ January ~~DD~~1, ~~YYYY~~2014, it shall disclose that fact and apply ~~IPSAS 1,~~ IPSAS 5, IPSAS 13, and IPSAS 17, ~~IPSAS 19, IPSAS 28, IPSAS 29, IPSAS 30, and IPSAS 31~~ at the same time.**

~~32~~37. When an entity adopts the accrual basis of accounting~~,~~ as defined by IPSASs~~,~~ for financial reporting purposes~~,~~ subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

Appendix A

Application Guidance

This appendix is an integral part of IPSAS ~~XX~~ 32 ~~(ED 43)~~.

~~**Terminology**~~[JK17]

~~AG1. Paragraph 2 describes common features of a service concession arrangement. Other common features are:~~

~~The grantor is a public sector entity;~~

~~The operator is responsible for at least some of the management of the service concession asset and related services and does not merely act as an agent on behalf of the grantor;~~

~~The arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement; and~~

~~The operator is obliged to hand over the service concession asset to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it.~~

~~AG2. Paragraph 3(c) describes a service concession asset. Examples of service concession assets are: roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, permanent installations for military and other operations, and other non-current tangible or intangible assets used for administrative purposes in delivering public services.~~

Scope (see paragraphs 2–7)

AG1~~3~~. This Standard is intended to "mirror" Interpretation 12 of the International Financial Reporting Interpretations Committee, "Service Concession Arrangements" (IFRIC 12), which sets out the accounting requirements of the operator in a service concession arrangement. The scope, principle for recognition of an asset, and terminology are derived from IFRIC 12. However, because this Standard deals with the accounting issues of the grantor, this Standard addresses the issues identified in IFRIC 12 from the grantor's point of view, as follows:

(a) The grantor recognizes a financial liability when it is obliged to make a series of payments to the operator for provision of a service concession asset (~~either~~ i.e., constructed~~, or~~ developed, acquired, or ~~an existing asset of the operator~~upgraded). Under paragraphs 12, 14, and 20 of IFRIC 12, the operator recognizes revenue for the construction, development, acquisition, upgrade, and operation services it provides. Under paragraph 8 of IFRIC 12, the operator derecognizes an asset that it held and recognized as property, plant, and equipment before entering the service concession arrangement.

(b) The grantor recognizes a ~~performance obligation~~liability when it grants the operator ~~access~~ the right to earn revenue from~~to~~ third-party users of the service concession asset

or another revenue-generating asset. Under paragraph 26 of IFRIC 12, the operator recognizes an intangible asset.

(c) The grantor derecognizes an asset it grants to the operator and over which it no longer has control. Under paragraph 27 of IFRIC 12, the operator recognizes the asset and a liability in respect of any obligations it has assumed in exchange for the asset.

~~AG4~~AG2. Paragraph ~~10~~ 9 of this Standard specifies the conditions under which an asset, other than a whole-of-life asset, is within the scope of the Standard. Paragraph ~~11~~ 10 of the Standard specifies the condition under which "whole-of-life" assets are within the scope of the Standard.

~~**Terminology**~~**Definitions** (see paragraph 8) [JK18]

AG~~1~~3. Paragraph ~~2~~8 ~~describes~~defines ~~common features of~~ a service concession arrangement. ~~Other c~~Common features of a service concession arrangement are:

(a) The grantor is a public sector entity;

(b) The operator is responsible for at least some of the management of the service concession asset and related services and does not merely act as an agent on behalf of the grantor;

(c) The arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement; ~~and~~

(d) The operator is obliged to hand over the service concession asset to the grantor in a specified condition at the end of the period of the arrangement, for little or no incremental consideration, irrespective of which party initially financed it; and

~~(d)~~(e) The arrangement [JK19] is governed by a binding arrangement that sets out performance standards, mechanisms for adjusting prices, and arrangements for arbitrating disputes.

AG~~2~~4. Paragraph ~~3(c)~~8 ~~describes~~defines a service concession asset. Examples of service concession assets are: roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunication networks, permanent installations for military and other operations, and other non-current tangible or intangible assets used for administrative purposes in delivering public services.

Recognition and Initial Measurement of a Service Concession Asset (see paragraphs 9–14)

Recognition of a Service Concession Asset

AG~~5~~5. The assessment of whether a service concession asset should be recognized in accordance with paragraph ~~10~~9 (or paragraph 10~~1~~ for a whole-of-life asset) is made on the basis of all of the facts and circumstances of the arrangement.

AG~~6~~6. The control or regulation referred to in paragraph 10(a) could be by a binding arrangement, ~~including a contract~~ or otherwise (such as through a third party regulator that regulates other entities that operate in the same industry or sector as the grantor), and includes circumstances in which the grantor buys all of the output as well as those in which some or all of the output is bought by other users. The ability to exclude or

regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. The binding arrangement sets the initial prices to be levied by the operator and regulates price revisions over the period of the service concession arrangement. When the binding arrangement conveys the right to control the use of the service concession asset to the grantor, the asset meets the condition specified in paragraph ~~10~~9(a).

AG~~7~~7. For the purpose of paragraph 9~~10~~(a), the grantor does not need to have complete control of the price: it is sufficient for the price to be regulated by the grantor, ~~contract~~binding arrangement, or a third party regulator that regulates other entities that operate in the same industry or sector (e.g., hospitals, schools, or universities) as the grantor, (e.g., by a capping mechanism). However, the condition is applied to the substance of the agreement. Non-substantive features, such as a cap that will apply only in remote circumstances, are ignored. Conversely, if for example, an arrangement purports to give the operator freedom to set prices, but any excess profit is returned to the grantor, the operator's return is capped and the price element of the control test is met.

AG~~8~~8. Many g~~G~~overnments ~~and their agencies~~ have the power to regulate the behavior of ~~many~~ entities operating in certain sectors of the economy, either directly, or through specifically created agencies. ~~by use of their powers and rights conferred by legislation, a constitution, or by equivalent means.~~ For the purpose of paragraph ~~10~~9(a), ~~such~~the broad regulatory powers described above do not constitute control. In this Standard, the term "regulate" is ~~not~~ intended to ~~convey the broad sense of the power of governments and government entities to regulate the behavior of entities by use of those sovereign or legislative powers~~ . ~~Rather, it is intended to~~ be applied only in the context of the specific terms and conditions of the service concession arrangement. For example, a regulator of rail services may determine rates that apply to the rail industry as a whole. Depending on the legal framework in a jurisdiction, such rates may be implicit in the binding arrangement governing a service concession arrangement involving the provision of railway transportation, or they may be specifically referred to therein. However, in both cases, the control of the service concession asset is derived from either the contract, or similar binding arrangement, or from the specific regulation applicable to rail services and not from the fact that the grantor is a public sector entity that is related to the regulator of rail service.

AG~~9~~9. For the purpose of paragraph ~~10~~9(b), the grantor's control over any significant residual interest should both restrict the operator's practical ability to sell or pledge the asset and give the grantor a continuing right of use throughout the period of the service concession arrangement. The residual interest in the asset is the estimated current value of the asset as if it were already of the age and in the condition expected at the end of the period of the service concession arrangement.

AG10~~10~~. Control should be distinguished from management. If the grantor retains both the degree of control described in paragraph 9~~10~~(a) and any significant residual interest in the asset, the operator is only managing the asset on the grantor's behalf—even though, in many cases, it may have wide managerial discretion.

AG11~~1~~.The conditions in paragraphs ~~10~~9(a) and ~~10~~9(b) together identify when the asset, including any replacements required, is controlled by the grantor for the whole of its economic life. For example, if the operator has to replace part of an asset during the period of the arrangement (e.g., the top layer of a road or the roof of a building), the asset is considered as a whole. Thus the condition in paragraph 9~~10~~(b) is met for the whole of the asset, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.

AG12~~2~~. Sometimes the use of a service concession asset is partly regulated in the manner described in paragraph ~~10~~9(a) and partly unregulated. However, these arrangements take a variety of forms:

(a) Any asset that is physically separable and capable of being operated independently and meets the definition of a cash-generating unit as defined in IPSAS 26, *Impairment of Cash-Generating Assets* is analyzed separately to determine whether the condition set out in paragraph 9~~10~~(a) is met if it is used wholly for unregulated purposes (e.g., this might apply to a private wing of a hospital, where the remainder of the hospital is used by the grantor to treat public patients); and

(b) When purely ancillary activities (such as a hospital shop) are unregulated, the control tests are applied as if those services did not exist, because in cases in which the grantor controls the services in the manner described in paragraph 9~~10~~(a), the existence of ancillary activities does not detract from the grantor's control of the service concession asset.

AG13~~3~~. The operator may have a right to use the separable asset described in paragraph AG12(a), or the facilities used to provide ancillary unregulated services described in paragraph AG12(b). In either case, there may in substance be a lease from the grantor to the operator; if so, it is accounted for in accordance with IPSAS 13.

Existing Asset of the Grantor

AG14. The arrangement may involve an existing asset of the grantor:

(a) To which the grantor gives the operator access for the purpose of the service concession arrangement; or

(b) To which the grantor gives the operator access for the purpose of generating revenues as compensation for the service concession asset.

AG15. ~~As specified in paragraph 12, existing assets of the grantor which the grantor continues to control in accordance with paragraph 10 (or paragraph 11 for a whole-of-life asset), are not recognized as new service concession assets, but are reclassified for reporting purposes and continue to be accounted for in accordance with IPSAS 17 or IPSAS 31, as appropriate.~~The requirement in paragraph 11 is to initially measure assets recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) at fair value. Existing assets of the grantor used in the service concession arrangement are reclassified rather than recognized under this Standard. ~~–~~Only the cost of any upgrade to the asset (e.g., that increases its capacity)[JK20] is recognized as a service concession asset in accordance with paragraph 9, or paragraph 10 for a whole-of-life asset).[JK21]

AG16. In applying the impairment tests in IPSAS 17 or IPSAS 31, as appropriate, the grantor does not necessarily consider the granting of the service concession to the operator as a circumstance that causes impairment, unless there has been a change in use of the asset that affects its future economic benefits or service potential. The grantor refers to IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, as appropriate to determine whether any of the indicators of impairment have been triggered under such circumstances.

AG17. If the asset no longer meets the conditions for recognition in paragraph ~~10~~ 9 (or paragraph ~~11~~ 10 for a whole-of-life asset), the grantor follows the derecognition principles in IPSAS 17 or IPSAS 31, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognized. If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognized. In such cases, the grantor also considers whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with IPSAS 13.

AG18. When the service concession arrangement involves upgrading an existing asset of the grantor such that the future economic benefits or service potential the asset will provide are increased, the upgrade is assessed to determine whether it meets the conditions for recognition in paragraph ~~10~~ 9 (or paragraph ~~11~~ 10 for a whole-of-life asset). If those conditions are met, the upgrade is ~~accounted~~ recognized and measured ~~for~~ in accordance with this Standard.

Existing Asset of the Operator

AG19. The operator may provide an asset for use in the service concession arrangement that it has not constructed, developed, or acquired. If the arrangement involves an existing asset of the operator ~~to~~ which the operator ~~gives the grantor access~~uses for the purpose of the service concession arrangement, the grantor determines whether the asset meets the conditions in paragraph ~~10~~ 9 (or paragraph ~~11~~ 10 for a whole-of-life asset). If the conditions for recognition are met, the grantor recognizes the asset as a service concession asset and account for it in accordance with this Standard.

Constructed or Developed Asset

AG20. Where a constructed or developed asset meets the conditions in paragraph 9 (or paragraph 10 for a whole of life asset) the grantor recognizes and measures the asset in accordance with this Standard. IPSAS 17 or IPSAS 31, as appropriate, set out the criteria for ~~the timing of initial recognition of~~when a service concession asset should be recognized. Both IPSAS 17 and IPSAS 31 require that an asset shall be recognized if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The cost or fair value of the item can be measured reliably.

AG21. Those criteria, together with the specific terms and conditions of the binding arrangement, need to be considered in determining whether to recognize the service concession asset during the period in which the asset is constructed or developed. For both property, plant, and equipment and intangible assets, the recognition criteria may be met during the construction or development period, and, if so, the grantor will normally recognize the service concession asset during that period.

AG22. The first recognition criterion requires the flow of economic benefits or service potential to the entity. From the grantor's point of view, the primary purpose of a service concession asset is to provide service potential on behalf of the public sector entity. Similar to an asset the grantor constructs or develops for its own use, the grantor would assess, at the time the costs of construction or development are incurred, the terms of the binding arrangement to determine whether the service potential of the service concession asset would flow to the grantor at that time.

AG23. The second recognition criterion requires that the initial cost or fair value of the asset can be measured reliably.

~~In the case of property, plant and equipment, where the operator bears the construction risk, the timing of initial recognition of the service concession asset by the grantor will normally be when the asset is placed into use. Where the grantor bears the construction risk, the recognition criteria may be met during the construction period, and, if so, the grantor will normally recognize the service concession asset (and related liability) during that period. The recognition criteria in IPSAS 31 also require that the initial cost or fair value of the asset can be measured reliably for an intangible asset to be recognized.~~ Accordingly, to meet the recognition criteria in IPSAS 17 or IPSAS 31, as appropriate, the grantor must have reliable information about the cost or fair value of the asset during its construction or development. For example, if the service concession arrangement requires the operator to provide the grantor with progress reports during the asset's construction or development, the costs incurred may be measurable, and would therefore met the recognition principle in IPSAS 17 for constructed assets or in IPSAS 31 for developed assets. Also, where the grantor has little ability to avoid accepting an asset constructed or developed to meet the specifications of the contract, or a similar binding arrangement, the costs are recognized as progress is made towards completion of the asset. Thus, the grantor recognizes a service concession asset and an associated accruing liability. ~~In some cases, the grantor may incur an obligation during construction or development before the constructed or developed asset meets the conditions in paragraph 10 (or paragraph 11 for a whole-of-life asset) for recognition as a service concession asset.~~

Measurement of Service Concession Assets

AG24. Paragraph 11 requires service concession assets to be measured at fair value. Fair value is used to determine the cost of a constructed or developed service concession asset or, the cost of any upgrades on existing assets, on initial recognition. The use of fair value on initial recognition does not constitute a revaluation in IPSAS 17 or IPSAS 31.

AG25. The type of compensation exchanged between the grantor and the operator affects how the fair value of the service concession asset is determined on initial recognition. The paragraphs that follow outline how to determine the fair value of the asset on initial recognition based on the type of compensation exchanged:

(a) Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset. Paragraphs AG26 to AG30 provide guidance on how to determine what portion of the payments paid to the operator relate to the service concession asset.

(b) Where the grantor does not make payments to the operator for the asset, the asset is accounted for in the same way as an exchange of non-monetary assets in IPSAS 17 and IPSAS 31. Paragraphs AG33 and AG 34 provide guidance on how the value should be determined.

Types of Compensation

AG2~~6~~1. ~~The nature of the consideration given by the grantor to the operator is determined by reference to the terms of the binding arrangement and, when relevant, contract law.~~ Service concession arrangements are rarely if ever the same; technical requirements vary by sector and by ~~country~~jurisdiction. Furthermore, the terms of the arrangement may also depend on the specific features of the overall legal framework of the particular ~~country~~jurisdiction. Contract laws, where they exist, may contain terms that do not have to be repeated in individual contracts.

AG2~~7~~2. Depending on the terms of the service concession arrangement, the grantor may compensate the operator for the service concession asset and service provision by any combination of the following:

(a) Making payments of cash or cash equivalents to the operator ~~(see paragraphs 15–17 and AG23–AG25 for asset measurement and paragraphs 21 and AG 31–AG37 for liability measurement after recognition)~~;

(b) Compensating the operator by other means such as:

(i) Granting the operator the right to ~~collect~~ earn revenue~~s directly~~ from third-party users of the service concession asset ~~(see paragraphs 15 and AG26–AG27 for asset measurement and paragraphs 22 and AG38–AG39 for liability measurement after recognition)~~; or

(ii) Granting the operator access to another revenue-generating asset for its use ~~(see paragraphs 15 and AG26–AG27 for asset measurement and paragraphs 22 and AG40 for liability measurement after recognition)~~.

Separable Payments

~~16~~AG28.[JK22] Where the grantor compensates the operator for the service concession asset by making payments, and the asset and service portions of the payments by the grantor to the operator are separable, the fair value in paragraph ~~15~~11 is the lower of the present value of payments and the fair value of the asset ~~portion of the payments~~.

AG2~~9~~3. A service concession arrangement may be separable in a variety of circumstances, including, but not limited to, the following:

(a) Part of a payment stream that varies according to the availability of the service concession asset itself and another part that varies according to usage or performance of certain services are identified;

(b) Different components of the service concession arrangement run for different periods or can be terminated separately. For example, an individual service component can be terminated without affecting the continuation of the rest of the arrangement; or

(c) Different components of the service concession arrangement can be renegotiated separately. For example, a service component is market tested and some or all of the cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.

AG30~~24~~. IPSAS 17 and IPSAS 31 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. When the amount of a scheduled payment specifies the amount allocated to the service concession asset, the cash price equivalent is the present value of the service concession asset portion of the predetermined series of payments. However, if the present value is greater than fair value, the service concession asset is initially measured at its fair value.

Inseparable Payments

~~17~~AG31. Where the asset and service portions of payments by the grantor to the operator are not separable, the fair value in paragraph 11 is determined using estimation techniques.[JK23]

AG32~~25~~. For the purpose of applying the requirements of this Standard, payments and other consideration required by the arrangement are allocated at the inception of the arrangement or upon a reassessment of the arrangement into those for the ~~original~~ service concession asset and those for other components of the service concession arrangement (e.g., maintenance and operation services) on the basis of their relative fair values. The fair value of the service concession asset includes only amounts related to the asset and excludes amounts for other components of the service concession arrangement. In some cases, allocating the payments for the asset from payments for other components of the service concession arrangement will require the grantor to use an estimation technique. For example, a grantor may estimate the payments related to the asset by reference to the fair value of a comparable asset in an agreement that contains no other components, or by estimating the payments for the other components in the service concession arrangement by reference to comparable arrangements and then deducting these payments from the total payments under the arrangement.

Operator Receives Other Forms of Compensation

AG33~~26~~. The types of transactions referred to in paragraph 14(b) are non-monetary exchange transactions. Paragraph 38 of IPSAS 17 and paragraph 44 of IPSAS 31, as appropriate, provide guidance on these circumstances.

AG34~~27~~. When the operator is granted the right to ~~directly collects~~ earn revenue from third-party ~~usage fees~~users of the service concession asset, or another revenue-generating asset, or receives non-cash compensation from the grantor, the grantor does not incur a cost directly for acquiring the ~~facility~~service concession asset. These forms of compensation to the operator ~~described in paragraphs 14 and AG22~~ are intended to compensate the operator both for the cost of the ~~facility~~ service concession asset and for operating it during the term of the service concession arrangement. The grantor therefore needs to initially measure the asset component in a manner consistent with paragraph ~~17~~11.

Subsequent Measurement

AG35. After initial recognition, a grantor applies IPSAS 17 and IPSAS 31 to the subsequent measurement and derecognition of a service concession asset. For the purposes of applying IPSAS 17 and IPSAS 31, service concession assets should be treated as a separate class of assets. IPSAS 21 and IPSAS 26 are also applied in considering whether there is any indication that a service concession asset is impaired. These requirements in these Standards are applied to all assets recognized or classified as service concession assets in accordance with this Standard.

Recognition and Measurement of ~~a~~ Liabilit~~iesy~~ (see paragraphs 15–27)

AG36~~28~~. The nature of the liability recognized in accordance with paragraph ~~19~~ 15 differs in each of the circumstances described in paragraph AG25~~2~~ according to its substance.

The Financial Liability Model (see paragraphs 18–20)

~~AG29~~AG37. When the grantor has an unconditional obligation to make~~s~~ a predetermined series of payments to the operator, the liability is a financial liability as defined in IPSAS 29. The grantor has an unconditional obligation if it has little, if any, discretion to avoid the obligation usually because of the binding arrangement with the operator being enforceable by law.

AG38. Service concession arrangements are concluded by way of a binding arrangement. Binding arrangements may include contracts or similar arrangements that confer similar rights and obligations on the parties as if they were in the form of a contract. Although IPSAS 28, IPSAS 29, and IPSAS 30 only apply to contractual arrangements, if similar arrangements exist that confer the same rights and obligations on either party as if they were in the form of a contract, IPSAS 28, IPSAS 29, and IPSAS 30 are applied by analogy to such arrangements.

~~When the operator is compensated by being granted the right to earn revenues from either the service concession asset or another asset provided by the grantor, the liability is a~~

~~performance obligation because the grantor is obligated to provide the asset to the grantor. IPSAS 19 provides guidance for such circumstances.~~

~~AG30. The grantor may also provide guarantees (e.g., of revenue or of debt incurred to construct the service concession asset). Such guarantees are accounted for in accordance with paragraphs AG56–AG58.~~

~~*Grantor Makes Payments to the Operator*~~

~~AG31~~AG39. When the grantor provides compensation to the operator for the cost of the service concession asset and service provision in the form of a predetermined series of payments, the portion of the predetermined series of payments that pertains to the asset is recognized as a liability in accordance with paragraph ~~19~~15. This liability does not include the finance charge and service portions of the payments specified in paragraph 21. ~~The finance charge is discussed in paragraphs AG33–AG37 and AG52. The service expense portion is discussed in paragraph AG53.~~

~~AG32~~AG40. Where the grantor makes any payments to the operator in advance of the service concession asset being recognized, the grantor accounts for those payments as prepayments.

~~AG33~~AG41. The finance charge specified in paragraph 21 is determined based on the operator's cost of capital specific to the service concession asset, if this is practicable to determine.

~~AG34~~AG42. If the operator's cost of capital specific to the service concession asset is not practicable to determine, the rate implicit in the arrangement specific to the service concession asset, the grantor's incremental borrowing rate, or another rate appropriate to the terms and conditions of the arrangement, is used.

~~AG35~~AG43. Where sufficient information is not available, the rate used to determine the finance charge may be estimated by reference to the rate that would be expected on acquiring a similar asset (e.g., a lease of a similar asset, in a similar location and for a similar term). The estimate of the rate should be reviewed together with:

(a) The present value of the payments;

(b) The assumed fair value of the asset; and

(c) The assumed residual value, to ensure all figures are reasonable and mutually consistent.

~~AG36~~AG44. In cases when the grantor takes part in the financing (e.g., by lending the operator the funds to construct, develop, acquire, or upgrade a service concession~~the~~ ~~–~~asset, or through guarantees), it may be appropriate to use the grantor's incremental borrowing rate to determine the finance charge.

~~AG37~~AG45. The interest rate used to determine the finance charge may not be subsequently changed unless the asset component or the whole of the arrangement is renegotiated.

AG~~52~~46.[JK24] The finance charge related to the liability in a~~n~~ service concession arrangement is ~~in substance interest on funds obtained by the operator to supply the service concession~~

~~asset and is therefore accounted~~presented ~~for~~ consistently with other finance charges in accordance with IPSAS 28, IPSAS 29, and IPSAS 30.

AG~~53~~47.[JK25] The service portion of payments determined in accordance with paragraph 21 is ordinarily recognized evenly over the term of the service concession arrangement because this pattern of recognition best corresponds to the service provision. In cases when specific expenses are required to be separately compensated, and their timing is known, such expenses are recognized as incurred.

Grant of a Right to the Operator ~~*Collects Third-Party Revenue*~~*Model* (see paragraphs 24–25)

~~AG38~~AG48. When the grantor compensates the operator for the service concession asset and service provision by granting the operator the right to ~~collect~~ earn revenue ~~directly~~ from third-party users ~~for use~~ of the service concession asset ~~(see paragraphs 22 and AG26–AG27)~~, a liability is recognized and ~~the liability~~for any unearned revenue arising from the exchange of assets between the grantor and the operator. Revenue ~~is a performance obligation as specified in paragraph 22. The liability~~ recognized and the liability reduced in accordance with paragraph ~~19~~ 24 ~~is reduced~~ based on the economic substance of the service concession arrangement, usually as access to the service concession asset is provided to the operator~~, ordinarily~~ over the term of the service concession arrangement. As described in paragraph AG27, the grantor may compensate the operator by a combination of payments and granting a right to earn revenue directly from third-party users. In such cases, if~~f~~ the operator's ~~collection~~ right to earn ~~of~~such third-party revenues significantly reduces or eliminates the grantor's predetermined series of payments to the operator, another basis may be more appropriate for reducing the liability (e.g., the term over which the grantor's future predetermined series of payments are reduced or eliminated). ~~As the liability is reduced, revenue is recognized (see paragraph AG44–45).~~

~~AG39. When the operator collects third-party revenues, the grantor does not recognize revenue unless the arrangement also contains revenue-sharing provisions (see paragraphs AG48–AG49) or minimum revenue guarantees (see paragraphs AG56–AG57).~~

~~*Grantor Gives the Operator Access to Another Revenue-Generating Asset for its Use*~~

~~AG40~~AG49. When the grantor compensates the operator for the service concession asset and service by the provision of a revenue-generating asset, other than the service concession asset, ~~to the operator,~~ revenue is recognized and the liability recognized in accordance with paragraph 24 ~~is a performance obligation as indicated in paragraph 22. The liability~~ is reduced in a manner similar to that descried in paragraph AG48~~as access to the revenue-generating asset is provided to the operator~~. In such cases, the grantor also considers the derecognition requirements in IPSAS 17 or IPSAS 31, as appropriate.

AG50. In some cases under the grant of a right to the operator model, there may be a "shadow toll". Some shadow tolls are paid for both the construction, development, acquisition, or upgrade of the service concession asset, and its operation by the operator. In cases where the grantor pays the operator solely for the usage of the service concession asset by the third-party users, such payment is compensation in exchange for the usage and not the acquisition of the service concession asset. Accordingly, such payments do not relate to the

liability specified in paragraph AG44. The grantor compensates the operator only to the extent of the usage of the service concession asset, and accounts for such payments as expenses in accordance with IPSAS 1.

~~*Revenue Recognition*~~[JK26]

~~AG42. The operator may compensate the grantor for access to the service concession asset by providing the grantor with a series of predetermined inflows of resources, including the following:~~

(a) ~~An upfront payment or a stream of payments to the grantor (see paragraphs AG43–AG47);~~

(b) ~~Revenue-sharing provisions (see paragraphs AG48–AG49);~~

(c) ~~A reduction in a predetermined series of payments the grantor is required to make to the operator (see paragraph AG50); and~~

(d) ~~Rent payments for providing the operator access to a revenue-generating asset (see paragraph AG51).~~

~~AG43. When the operator provides an upfront payment, a stream of payments, or other consideration to the grantor for the right to use the service concession asset over the term of the service concession arrangement, the grantor accounts for these payments in accordance with IPSAS 9. The timing of the revenue recognition is determined by the terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.~~

~~AG44. Where the operator provides an upfront payment, a stream of payments, or other consideration to the grantor in addition to the service concession asset, for the right to collect the third-party revenues, as described in paragraphs AG38–AG39, or for access to another revenue-generating asset, as described in paragraph AG40, any portion of the payments received from the operator not earned in the accounting period is recognized as a performance obligation until the conditions for revenue recognition are met.~~

~~AG45. When the conditions for revenue recognition are met, the liability is reduced as the revenue is recognized in accordance with paragraph 24.~~

~~AG46. However, given the varying nature of the types of assets that may be used in service concession arrangements, and the number of years over which the arrangements operate, there may be more appropriate alternative methods for recognizing revenue associated with the inflows specified in the binding arrangement that better reflect the operator's economic consumption of their access to the service concession asset and/or the time value of money. For example, an annuity method that applies a compounding interest factor that more evenly recognizes revenue on a discounted basis, as opposed to on a nominal basis, may be more appropriate for a service concession arrangement with a term extending over several decades.~~

~~AG47. When an upfront payment is received from the operator, the revenue is recognized over the term over which the grantor will meet its performance obligation. When the operator is required to pay annual installments over the term of the service concession~~

~~arrangement, or predetermined sums for specific years, the revenue is recognized in a way that best reflects the operator's economic consumption of their access to the service concession asset and/or the time value of money.~~

~~AG48. For service concession arrangements under which the operator will collect fees directly from third-party users of the service concession asset, revenue relates to the inflow of economic benefits received as the services are provided and is therefore recognized on the same basis as the liability is reduced (see paragraph AG38). In these cases, the grantor will often negotiate to include a revenue-sharing provision in the arrangement with the operator. Revenue-sharing as part of a service concession arrangement may be based on all revenue earned by the operator, or on revenue above a certain threshold, or on revenue more than the operator needs to achieve a specified rate of return.~~

~~AG49. The grantor recognizes revenue generated from revenue-sharing provisions in service concession arrangements as it is earned, in accordance with the substance of the relevant agreement, after any contingent event (e.g., the achievement of a revenue threshold) is deemed to have occurred. The grantor applies IPSAS 19 to determine when the contingent event has occurred.~~

~~AG50. A reduction in the future predetermined series of payments the grantor would otherwise be required to make to the operator provides the grantor with upfront non-cash consideration. Such revenue is recognized as the liability is reduced (see paragraphs AG44–45).~~

~~AG51. When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognized in accordance with IPSAS 23, "*Revenue from Non-Exchange Transactions (Taxes and Transfers).*"~~

Dividing the Arrangement (see paragraphs 26–27)

AG51~~41~~. ~~A grantor may recognize both a financial liability and a performance obligation related to a specific service concession arrangement.~~ If the operator is compensated for the service concession asset partly by a predetermined series of payments and partly by receiving the right to earn revenue from third-party use of either the service concession asset or ~~from~~ another revenue-generating asset, it is necessary to account separately for each portion of the liability related to the grantor's consideration. In these circumstances, the consideration to the operator is divided into a financial liability portion for the predetermined series of payments and a ~~performance obligation portion~~liability portion for the right granted to the operator to earn revenue from third-party use of the service concession asset or ~~from~~ another revenue-generating asset. Each portion of the liability is recognized initially at the fair value of the consideration paid or payable. ~~Financial liabilities are accounted for in accordance with IPSAS 28, IPSAS 29, and IPSAS 30. Performance obligations are accounted for in accordance with IPSAS 19.~~

Other Liabilities, Commitments, Contingent Liabilities and Contingent Assets (see paragraph 28)

~~**Guarantees and Contingencies**~~

AG~~56~~52.[JK27] Service concession arrangements may include various forms of financial guarantees (e.g., a guarantee, security, or indemnity related to the debt incurred by the operator to finance construction, development, acquisition, or upgrade of a service concession asset), or performance guarantees (e.g., guarantee of minimum revenue streams, including compensation for short-falls~~)~~.

AG~~57~~53.[JK28] Certain guarantees made by a grantor may meet the definition of a financial guarantee contract ~~or an insurance contract~~. The grantor determines whether guarantees made by the grantor as part of a service concession arrangement meet the definition of a financial guarantee contract ~~or of an insurance contract set out in~~and applies IPSAS 28, IPSAS 29, and IPSAS 30~~and applies that Standard to~~in ~~recognize and measure~~accounting for ~~any related financial liability~~the guarantee. Where the guarantee is an insurance contract, the grantor can elect to apply the relevant international or national accounting standard dealing with insurance contracts. See IPSAS 28, paragraphs AG3–AG9 for further guidance.

AG~~58~~54.[JK29] Guarantees and commitments that do not meet the ~~definition of a~~requirements in IPSAS 28 and IPSAS 29 relating to financial guarantee contracts or are not ~~of an~~ insurance contracts ~~set out in IPSAS 29~~ are accounted for in accordance with IPSAS 19.

AG~~59~~55.~~.~~ Contingent assets or liabilities may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with IPSAS 19.

Other Revenues and Expense~~s Recognition~~ (see paragraph 29)

~~*Revenue Recognition*~~

AG~~42~~56.[JK30] The operator may compensate the grantor for access to the service concession asset by providing the grantor with a series of predetermined inflows of resources, including the following:

(a) An upfront payment or a stream of payments to the ~~grantor (see paragraphs AG43–AG47);~~

(b) Revenue-sharing provisions ~~(see paragraphs AG48–AG49);~~

(c) A reduction in a predetermined series of payments the grantor is required to make to the operator ~~(see paragraph AG50)~~; and

(d) Rent payments for providing the operator access to a revenue-generating asset ~~(see paragraph AG51).~~

AG~~43~~57.[JK31] When the operator provides an upfront payment, a stream of payments, or other consideration to the grantor for the right to use the service concession asset over the term of the service concession arrangement, the grantor accounts for these payments in accordance with IPSAS 9. The timing of the revenue recognition is determined by the

terms and conditions of the service concession arrangement that specify the grantor's obligation to provide the operator with access to the service concession asset.

AG4458. [JK32] Where the operator provides an upfront payment, a stream of payments, or other consideration to the grantor in addition to the service concession asset, for the right to ~~collect~~earn the ~~third-party~~ revenues from third-party use of the service concession asset, ~~as described in paragraphs AG38–AG39,~~ or ~~for access to~~ another revenue-generating asset~~, as described in paragraph AG40~~, any portion of the payments received from the operator not earned in the accounting period is recognized as a ~~performance obligation~~liability until the conditions for revenue recognition are met.

AG4559.[JK33] When the conditions for revenue recognition are met, the liability is reduced as the revenue is recognized in accordance with paragraph 249.

AG4660. However, given the varying nature of the types of assets that may be used in service concession arrangements, and the number of years over which the arrangements operate, there may be more appropriate alternative methods for recognizing revenue associated with the inflows specified in the binding arrangement that better reflect the operator's economic consumption of their access to the service concession asset and/or the time value of money. For example, an annuity method that applies a compounding interest factor that more evenly recognizes revenue on a discounted basis, as opposed to on a nominal basis, may be more appropriate for a service concession arrangement with a term extending over several decades.

AG4761. When an upfront payment is received from the operator, the revenue is recognized in a way that best reflects the operator's economic consumption of its access to the service concession asset and/or the time value of money~~over the term over which the grantor will meet its performance obligation~~. For example, w~~W~~hen the operator is required to pay annual installments over the term of the service concession arrangement, or predetermined sums for specific years, the revenue is recognized over the specified term.~~ in a way that best reflects the operator's economic consumption of their access to the service concession asset and/or the time value of money.~~

AG4862. For service concession arrangements under which the operator ~~will collect fees~~is granted the right to earn ~~directly~~ revenue from third-party users of the service concession asset, revenue relates to the inflow of economic benefits received as the services are provided and is therefore recognized on the same basis as the liability is reduced ~~(see paragraph AG38)~~. In these cases, the grantor will often negotiate to include a revenue-sharing provision in the arrangement with the operator. Revenue-sharing as part of a service concession arrangement may be based on all revenue earned by the operator, or on revenue above a certain threshold, or on revenue more than the operator needs to achieve a specified rate of return.

AG4963.[JK34] The grantor recognizes revenue generated from revenue-sharing provisions in service concession arrangements as it is earned, in accordance with the substance of the relevant agreement, after any contingent event (e.g., the achievement of a revenue threshold) is deemed to have occurred. The grantor applies IPSAS 19 to determine when the contingent event has occurred.

AG5064. [JK35] A reduction in the future predetermined series of payments the grantor would otherwise be required to make to the operator provides the grantor with upfront non-cash consideration. Such revenue is recognized as the liability is reduced (see paragraphs AG44–45).

AG5165. [JK36] When the operator pays a nominal rent for access to a revenue-generating asset, the rental revenue is recognized in accordance with IPSAS 23, "*Revenue from Non-Exchange Transactions (Taxes and Transfers).*"

~~AG52.~~ [JK37] ~~The finance charge related to the liability in an service concession arrangement is in substance interest on funds obtained by the operator to supply the service concession asset and is therefore accounted for consistently with other finance charges in accordance with IPSAS 28, IPSAS 29, and IPSAS 30.~~

~~AG53.~~ [JK38] ~~The service portion of payments determined in accordance with paragraph 21 is ordinarily recognized evenly over the term of the service concession arrangement because this pattern of recognition best corresponds to the service provision. In cases when specific expenses are required to be separately compensated, and their timing is known, such expenses are recognized as incurred.~~

~~AG54. AG55.~~ [JK39] ~~When a service concession asset comprises various components, IPSAS 17 requires each component with a cost that is significant in relation to the total cost of the service concession asset to be depreciated separately.~~

~~Service concession assets may comprise various components. For example, a road system may consist of pavements, formation, curbs and channels, footpaths, bridges, and lighting components. In most cases, the grantor would be required to depreciate separately the components within a road system.~~

~~Guarantees and Contingencies~~

~~AG56.~~ [JK40] ~~Service concession arrangements may include various forms of financial guarantees (e.g., a guarantee, security, or indemnity related to the debt incurred by the operator to finance construction of a service concession asset), or performance guarantees (e.g., guarantee of minimum revenue streams, including compensation for short falls).~~

~~AG57.~~[JK41] ~~Certain guarantees made by a grantor may meet the definition of a financial guarantee contract or an insurance contract. The grantor determines whether guarantees made by the grantor as part of a service concession arrangement meet the definition of a financial guarantee contract or of an insurance contract set out in IPSAS 29, and applies that Standard to recognize and measure any related financial liability~~

~~AG58~~[JK42]. ~~Guarantees and commitments that do not meet the definition of a financial guarantee contract or of an insurance contract set out in IPSAS 29 are accounted for in accordance with IPSAS 19.~~

~~AG59.~~[JK43] ~~Contingent assets or liabilities may arise from disputes over the terms of the service concession arrangement. Such contingencies are accounted for in accordance with IPSAS 19.~~

Presentation and Disclosure (see paragraphs 30–33)

~~AG60~~AG66. D~~Certain d~~isclosures relating to ~~some components~~various aspects of service concession arrangements ~~are~~ may be addressed in existing Standards. This Standard addresses only the additional disclosures ~~of~~ relating to service concession arrangements. Where the accounting for a particular ~~component~~ aspect of a service concession arrangement is addressed in another Standard, the grantor follows the disclosure requirements of that Standard in addition to those set out in paragraph 27.

~~AG61~~AG67. IPSAS 1 requires finance costs to be presented separately in the statement of financial performance. The finance charge determined in accordance with paragraph~~s~~ 21 ~~and AG33–AG37~~ is included in this item.

Transition (see paragraphs 34–35)

AG68. Where an entity has not previously recognized service concession assets, an entity may elect to use one of the following amounts, determined at the beginning of the earliest period for which comparative information is presented in the financial statements, as deemed cost:

(a) For property, plant, and equipment, fair value, or depreciated replacement cost as a means of estimating fair value where there is no market (see IPSAS 17, paragraphs 46–48).

(b) For intangible assets, fair value.

AG69. Depreciation is based on that deemed cost and starts from the date for which the entity established the deemed cost.

Use of Deemed Cost under the Financial Liability Model

AG70. Where an entity uses deemed cost under the financial liability model, it measures:

(a) The financial liability using the remaining contractual cash flows specified in the binding arrangement.

(b) The service concession asset using fair value (see paragraph 11).

Any difference between the value of the asset and the financial liability is recognized directly net assets/equity. If the entity chooses as its accounting policy the revaluation model in IPSAS 17 or IPSAS 31, this difference is included in any revaluation surplus.

Use of Deemed Cost under the Grant of a Right to the Operator Model

AG71. Where an entity uses deemed cost under the grant of a right to the operator model, it measures:

(a) The service concession asset at fair value (see paragraph 11).

(b) The liability representing the unearned portion of any revenue arising from the receipt of the service concession asset. This amount should be determined as the fair value of the asset less any financial liabilities, adjusted to reflect the remaining period of the service concession arrangement.

Appendix B

Amendments to Other IPSASs

IPSAS 5, *Borrowing Costs*

Paragraph 6 is amended as follows:

Borrowing Costs

6. Borrowing costs may include:

   (a) Interest on bank overdrafts and short-term and long-term borrowings;

   (b) Amortization of discounts or premiums relating to borrowings;

   (c) Amortization of ancillary costs incurred in connection with the arrangement of borrowings;

   (d) Finance charges in respect of finance leases and service concession arrangements; and

   (e) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Effective Date

A new paragraph is inserted after paragraph 42 as follows:

42A. Paragraph 6 was amended by IPSAS 32, *Service Concession Arrangements: Grantor* issued in Month 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2014, it shall disclose that fact.

IPSAS 13, *Leases*

Paragraphs 25–27 are amended as follows:

Leases and Other Contracts

25. A contract may consist solely of an agreement to lease an asset. However, a lease may also be one element in a broader set of agreements with private sector entities to construct, own, operate and/or transfer assets. Public sector entities often enter into such agreements, particularly in relation to long-lived physical assets and infrastructure assets. ~~For example, a public sector entity may construct a tollway. It may then lease the tollway to a private sector entity as part of an arrangement whereby the private sector entity agrees to:~~

   ~~(a) Lease the tollway for an extended period of time (with or without an option to purchase the facility);~~

   ~~(b) Operate the tollway; and~~

   ~~(c) Fulfill extensive maintenance requirements, including regular upgrading of both the road surface and the traffic control technology.~~

Other agreements may involve a public sector entity leasing infrastructure from the private sector. The entity determines whether the arrangement is a service concession arrangement, as defined in IPSAS 32, *Service Concession Arrangements: Grantor*.

26. Where an arrangement does not meet the conditions for recognition of a service concession asset in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*. and the arrangement contains an identifiable operating lease or finance lease as defined in this Standard, the provisions of this Standard are applied in accounting for the lease component of the arrangement.

27. Public sector entities may also enter a variety of agreements for the provision of goods and/or services, which necessarily involve the use of dedicated assets. In some of these agreements, it may not be clear whether ~~or not~~ a service concession arrangement as defined in IPSAS 32, *Service Concession Arrangements: Grantor*. or a lease, as defined by this Standard, has arisen. In these cases professional judgment is exercised, and if a lease has arisen this Standard is applied; and if a lease has not arisen entities account for those agreements by applying the provisions of other relevant IPSASs, or in the absence thereof, other relevant international and/or national accounting standards.

Effective Date

A new paragraph is inserted after paragraph 85A as follows:

85B. Paragraphs 25, 26 and 27 were amended by IPSAS 32, *Service Concession Arrangements: Grantor* issued in Month 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2014, it shall disclose that fact.

IPSAS 17, *Property, Plant, and Equipment*

Paragraph 4 is amended as follows:

Scope

4. This Standard applies to property, plant and equipment including:

   (a) Specialist military equipment; ~~and~~

   (b) Infrastructure assets~~.~~; and

   (c) Service concession arrangement assets after initial recognition and measurement in accordance with IPSAS 32, *Service Concession Arrangements: Grantor*.

Paragraph 7 is amended as follows:

7. Other IPSASs may require recognition of an item of property, plant, and equipment based on an approach different from that in this Standard. For example, IPSAS 13, *Leases* requires an entity to evaluate the recognition of an item of leased property, plant, and equipment on the basis of the transfer of risks and rewards. IPSAS 32, *Service Concession Arrangements: Grantor* requires an entity to evaluate the recognition of an

item of property, plant, and equipment used in a service concession arrangement on the basis of control of the asset. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.

Effective Date

A new paragraph is inserted after paragraph 107B as follows:

107C. Paragraphs 4 and 7 were amended by IPSAS 32, *Service Concession Arrangements: Grantor* issued in Month 2011. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2014. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2014, it shall disclose that fact.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS ~~XX~~ 32 ~~(ED 43)~~.

Objective

BC1. In the absence of an International Public Sector Accounting Standard dealing with service concession arrangements, public sector entities are directed, in IPSAS 1 to look to other international or national accounting standards. In the case of arrangements involving private sector participation, they would try to apply the principles in Interpretation 12 of the International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC 12), *Service Concession Arrangements*. However, IFRIC 12 addresses accounting by the operator, and does not, therefore, provide guidance for the grantor. The IPSASB believes this Standard will promote consistency and comparability in how service concession arrangements are reported by public sector entities.

Scope

BC2. After considering the various types of arrangements involving public and private sector entities identified in the development of~~in~~ the March 2008 Consultation Paper, "Accounting and Financial Reporting for Service Concession Arrangements," the IPSASB agreed that the scope of this Standard should be the mirror of IFRIC 12, in particular, the ~~circumstances~~ criteria under which the grantor recognizes a service concession asset (see paragraphs BC9–BC13). The rationale for this decision is that this approach would require both parties to the same arrangement to apply the same principles in determining ~~whether~~ which party should recognize the asset used in a service concession arrangement~~. should be accounted for as an asset~~ Tthus, arrangements in which the criteria for recognition of a service concession asset in paragraph 9 (or paragraph 10 for a whole-of-life asset) are not satisfied, are outside the scope of this IPSAS. The IPSASB considers that this approach minimizes~~ing~~ the possibility for an asset to be accounted for by both of the parties, or by neither party.

BC3. ~~However, t~~The IPSASB ~~concluded~~ recognized that the Standard should provide Implementation Guidance on the relevant IPSASs that apply to arrangements outside the scope of the Standard. The Implementation Guidance contains a flowchart illustrating the application of this Standard as well as a table of references to relevant IPSASs for the other types of arrangements that are outside the scope of this Standard.

BC4. The IPSASB concluded that it was important to provide guidance on accounting for the ~~liability recognized related to~~consideration given by the grantor to the operator for the service concession asset~~. because the liability may consist of any combination of a~~The consideration may give the operator rights to a ~~financial liability (for a~~determinable series of ~~predetermined~~ payments~~)~~ of cash or cash equivalents or a right to earn revenue from third-party users of the service concession asset or another revenue-generating asset for its use, or a combination of both types of consideration. ~~and a performance obligation (when the operator receives a revenue-generating asset).~~ Each ~~of these liabilities~~type of consideration results in specific accounting issues on which the IPSASB has provided guidance to facilitate consistent application of the Standard.

BC5. The IPSASB also concluded that guidance was necessary on applying the general revenue recognition principles in IPSAS 9, *Revenue from Exchange Transactions* to service concession arrangements because of the unique features of some service concession arrangements (e.g., revenue-sharing provisions, provision of a revenue-generating asset for nominal rent).

BC6. This Standard does not specify the accounting by operators, because it is addressed in IFRIC 12. In many cases the operator is a private enterprise, and IPSASs are not designed to apply to private sector entities. ~~.~~The operator or the grantor may also be a Government Business Enterprise (GBE).IPSASs are not designed to apply to GBEs. International Financial Reporting Standards (IFRSs) apply to private sector entities and GBEs.

BC7. Some respondents to ED 43 suggested that the scope of the proposed Standard should be extended to include public-to-public service concession arrangements. The IPSASB noted that addressing the accounting for such arrangements was not the primary purpose of the project which was to address the cases when the grantor is a public sector eneity that follows IPSASs. The IPSASB noted that application of this Standard by analogy would be appropriate.

~~Terminology~~Definitions

BC~~8~~7. ~~The IPSASB agreed that it was not necessary to~~ ED 43 did not provide definitions ~~in this Standard in light of the different nature of this Standard (i.e., it is intended to "mirror" the IFRIC 12 requirements) and the fact that~~because IFRIC 12 ~~does~~ did not ~~specifically define terms~~do so~~. The IPSASB has~~ Accordingly, ED 43 ~~instead~~ provided guidance on certain terminology ~~used in this Standard~~. Respondents to ED 43 proposed that, because this is a Standard and not an Interpretation, it was important to include definitions for consistency in application of the Standard. ~~In particular, the main term in this Standard is "service concession arrangement," which is not defined in IFRIC 12. The guidance in IFRIC 12 on characteristics of service concession arrangements has been adapted for~~ The IPSASB agreed that this Standard should include definitions.

~~BC8~~BC9. The IPSASB agreed not to use the term "infrastructure" to refer to the asset used in a service concession arrangement, even though IFRIC 12 uses the term. The IPSASB noted that the term is used in IPSASs in ways that may not be fully compatible with this Standard. Further, the term has a prescribed meaning in some jurisdictions that differs from that used in IFRIC 12. To ensure clarity that the asset referred to is the one recognized on the basis of the conditions for recognition in paragraph ~~10~~ 9 of this Standard (or paragraph ~~11~~ 10 for a whole-of-life asset), the asset in this Standard is referred to as the "service concession asset." This term is intended to cover the same types of assets as envisaged in IFRIC 12.

~~BC9~~BC10. The term "binding arrangement" ~~has~~ had not been defined previously, but has been used in other IPSASs to describe arrangements that that confer similar rights and obligations on the parties to it as if ~~it~~ they were in the form of a contract. The IPSASB concluded that this for the purposes of this Standard, this term ~~is required~~should be defined to ensure consistent application of the Standard.~~address the circumstances addressed in this Standard, and has~~

~~provided guidance in paragraph 3(a) on circumstances that give rise to binding arrangements, consistent with other IPSASs~~.

Recognition of a Service Concession Asset ~~and a Liability~~

~~BC10~~BC11. The main accounting issue in service concession arrangements is whether the grantor should recognize a service concession asset ~~and a related liability~~.

~~BC11~~BC12. The IPSASB considered the merits of the risks and rewards ~~control-based approach~~ and the ~~risks and rewards~~ control-based approach to assess~~ing~~ whether the grantor should recognize the asset. The risks and rewards approach focuses on the economic aspects of the terms and conditions in the arrangement. The IPSASB did not believe this focus to be appropriate for service concession arrangements because the primary purpose of a service concession asset, from the grantor's point of view, is to provide ~~service potential on behalf of the public sector entity~~specified public services on behalf of the grantor using a service concession asset, and not to provide economic benefits such as revenue generated by ~~these~~ such assets (e.g., from user fees). Thus, the service potential of the asset accrues to the grantor. Economic benefits are only likely to arise from a service concession arrangement in circumstances where the operator is granted the right to earn revenue from third-party users, of either the service concession asset or another revenue-generating asset. A control-based approach focuses on control over the economic benefits and the service potential of the service concession asset.

~~BC12~~BC13. As it is often the case that service concession arrangements are entered into for the sharing of risks between the grantor and the operator, t~~T~~he IPSASB also questioned whether sufficiently objective criteria could be established for assessing risks and rewards to enable consistent results to be determined. In addition, weighting of various risks and rewards was seen to be problematic. The IPSASB concluded, therefore, that the risks and rewards approach is inappropriate.

~~BC13~~BC14. The IPSASB also considered whether a rights and obligations approach was appropriate. Although such an approach could have conceptual merit, the IPSASB believes that it would represent a significant change in the accounting and financial reporting of assets and liabilities for public sector entities that could have implications beyond service concession arrangements. Given the IPSASB's decision to complement IFRIC 12, which uses a control-based approach, the IPSASB agreed that a rights and obligations approach was not appropriate for this Standard.

~~BC14~~BC15. The IPSASB concluded that a control-based approach was the most effective means to determine whether the grantor should recognize the asset. The IPSASB concluded that if a control-based approach is used, it should be consistent with IFRIC 12, for the same reasons cited in paragraph BC2. Accordingly, this Standard addresses only arrangements in which the grantor (a) controls or regulates the services provided by the operator, and (b) controls any significant residual interest in the service concession asset at the end of the term of the arrangement. Consistent with IFRIC 12, in the case of whole-of-life assets, only condition (a) must be met for recognition of a service concession asset. The IPSASB concluded that it was important to stress that a service concession arrangement is a binding arrangement.

Accordingly, the assessment of whether a service concession asset should be recognized is made on the basis of all of the facts and circumstances of the arrangement.

BC16. Paragraph 9(a) of this Standard (paragraph 10(a) of ED 43) is consistent with paragraph 5 of IFRIC 12. It is intended to apply only the regulation that is specific to the service concession arrangement, and not to the broad understanding of public sector regulatory powers from the grantor's point of view. The regulation referred to in paragraph 9(a) of this Standard is either by contract or through a regulator. Guidance is provided in paragraph AG6 on applying the term "regulates" in paragraph 9(a) to determine whether the grantor should recognize a service concession asset. Some respondents to ED 43 asserted that providing such additional guidance creates an asymmetry with IFRIC 12, as there is no additional guidance on the meaning of this term. The IPSASB considers the additional guidance provided in paragraph AG6 is necessary to ensure symmetry exists between the public sector grantor's and the private sector operator's application of the "regulates" criterion in determining whether to recognize the service concession asset, as the public sector may have considered the term in the context of the broad regulatory powers of governments.

Recognition of a Liability

~~BC15~~BC17.~~.~~ ~~When the grantor recognizes a service concession asset in accordance with this Standard, it must also recognize a liability of equal amount (increased for any cash received by the grantor and decreased by cash paid by the grantor). The liability reflects the grantor's obligation to compensate the operator for the asset. The IPSASB concluded that depending on the terms of the arrangement, the grantor might recognize any combination of a financial liability and a performance obligation.~~ ED 43 described two circumstances that may give rise to a liability when the grantor recognizes a service concession asset, based on the nature of the consideration due to the operator in exchange for the service concession asset.

BC18. ED 43 proposed that when the grantor recognizes a service concession asset, a liability shall also be recognized. The ED noted that this liability may be any combination of a financial liability and a performance obligation. ED 43 proposed that a financial liability occurs when the grantor has a determinable series of cash payments of cash or cash equivalents to make to the operator and a performance obligation occurs when the grantor compensates the operator by granting the operator the right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset for its use. ED 43 proposed that the grantor account for the performance obligation in accordance with IPSAS 19.

BC19. Respondents to ED 43 sought clarification on this issue, particularly with respect to the "performance obligation" identified in ED 43. Respondents' concerns are summarized below.

(a) The right to charge users of the service concession asset or by granting the operator access to another revenue-generating asset was seen by some respondents as independent of the compensation for the asset. These respondents highlighted that the requirement to provide access is a feature of most service concession arrangements,

and if this is to be recognized, such recognition should not be dependent on the non-occurrence of a payment stream from the grantor to the operator.

(b) While being described as a performance obligation, there is no obligation for an outflow of economic resources from the grantor in future periods. These respondents therefore question whether a liability as defined in IPSAS 1, or a provision as defined in IPSAS 19 could be fairly represented to exist.

BC20. In addition, a number of other respondents, possibly as a result of the above concerns, requested clarification of the meaning of "performance obligation" in the ED. A few of these respondents queried whether the substance of the nature of this "balancing item" was deferred revenue.

BC21. The IPSASB agreed that clarification of this issue was required. The IPSASB noted that using the term "performance obligation" could give rise to confusion because it is used in IPSAS 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)* in relation to non-exchange transactions. The IPSASB noted that a service concession arrangement is an exchange transaction rather than a non-exchange transaction and therefore it would be preferable not to use the term performance obligation in relation to exchange transactions.

BC22. In IFRIC 12, when the operator does not control the service concession asset, the operator recognizes either a financial asset, or an intangible asset, depending on which party bears the demand risk. The IPSASB agreed that, to maintain symmetry with IFRIC 12, the same approach should be adopted for the grantor. Thus, two models are identified for accounting for the credit when the grantor recognizes a service concession asset in accordance with this Standard: the financial liability model, and the grant of a right to the operator model (which replaces the "performance obligation").

BC23. The IPSASB's decision to amend the terminology used in ED 43 from "performance obligation" to the Standard's use of "liability" does not change the grantor's accounting treatment of a service concession arrangement from that proposed in ED 43.

The Financial Liability Model

BC24. Where the grantor compensates the operator by the delivery of cash or another financial asset in exchange for its control of a service concession asset. IFRIC 12 classifies this type of arrangement as the "financial asset model" because the operator receives a financial asset. This Standard refers to this type of arrangement as the "financial liability model" because the grantor has a financial liability.

~~BC16~~BC25. A financial liability arises in cases when the grantor is obligated to make a determinable series of ~~predetermined~~ payments to the operator because the grantor has an ~~contractual~~ obligation as a result of the binding arrangement to deliver cash or another financial asset to another entity (the operator). The IPSASB concluded further that when there is a determinable series of ~~predetermined~~ payments of cash or cash equivalents, the payments should be allocated among portions that reduce the liability, an imputed finance charge and charges for services provided by the operator under the service concession arrangement.

~~BC17. The IPSASB concluded that a performance obligation arises in cases when the grantor grants the operator the right to earn revenues, either from the service concession asset or from another asset because the grantor has received exchange consideration (i.e., an inflow of resources in the form of the service concession asset) in advance of its performance under the exchange (i.e., its obligation to provide the operator access to the service concession asset or another revenue-generating asset).~~

Grant of a Right to the Operator Model

BC26. In responding to the issues raised by respondents to ED 43, the IPSASB reconsidered the nature of the consideration given by the grantor for the service concession asset where the operator recoups the price of the asset from earning revenue from third-party users of the service concession asset or another revenue-generating asset. The IPSASB noted that in this situation, the cash consideration for the service concession asset is not being met by the grantor but by users of the service concession asset or other revenue-generating asset. The economic substance of this arrangement provides an increase in net assets to the grantor, and therefore revenue accrues and should be recognized. As the service concession arrangement is an exchange transaction, the Board referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue.

BC27. Where the operator bears the demand risk, the grantor compensates the operator by the grant of a right (e.g., a licence) to charge users of the public service related to the service concession asset or of another revenue-generating asset. The grantor provides the operator access to the asset in order for the operator to be compensated for construction, development, acquisition, or upgrade of the service concession asset. IFRIC 12 classifies this type of arrangement as the "intangible asset model." This Standard refers to this type of arrangement as the "grant of a right to the operator model."

BC28. The IPSASB therefore considered whether the credit should be accounted for as a liability (including whether the grantor has a long-term liability, and if so, the nature of the liability), as a direct increase to net assets/equity, or as revenue.

BC29. It was agreed that, in this circumstance, the grantor does not have a long-term liability as defined in IPSAS 19 because the service concession arrangement is an exchange of assets, with the service concession asset being obtained by the grantor in exchange for a transfer of rights to the operator to earn revenue from third-party users of the asset over the period of the service concession arrangement.

BC30. Some respondents to ED 43 indicated that the credit should be treated as net assets/equity, consistent with IPSAS 1, which defines net assets/equity as the residual interest in the assets of the entity after deducting all its liabilities. IPSAS 1 envisages four components of net assets/equity. Those components include:

(a) Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;

(b) Accumulated surpluses or deficits;

(c) Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and

(d) Minority interests.

BC31. The IPSASB concluded that the credit did not represent a direct increase in the grantor's net assets/equity because the credit is not one of the components of net assets/equity identified in paragraph BC25 for the reasons noted below:

(a) Contributions from owners are defined as "future economic benefits or service potential that has been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, that establish a financial interest in the net assets/equity of the entity, which: (a) Conveys entitlement both to (i) distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to (ii) distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or (b) Can be sold, exchanged, transferred, or redeemed. The credit related to the recognition of a service concession asset does not meet this definition because the operator has not made a contribution to the grantor that results in a financial interest in the entity by the operator as envisaged by IPSAS 1.

(b) Accumulated surplus/deficit is an accumulation of an entity's surpluses and deficits. The credit related to recognition of a service concession asset represents an individual transaction and not an accumulation.

(c) Reserves generally arise from items recognized directly in net assets/equity from specific requirements in IPSASs, and may include, for example, gains and losses on revaluation of assets (e.g., property, plant and equipment, investments). The credit related to the recognition or reclassification of a service concession asset does not represent a gain or loss specified to be directly recognized in net/assets equity because it involves an exchange transaction and not a revaluation of an existing asset of the grantor. Existing assets of the grantor, when used in a service concession arrangement and continue to meet the control criteria in this Standard, are reclassified, thus no revaluation is done.

(d) A minority interest is defined as "that portion of the surplus or deficit and net assets/equity of a controlled entity attributable to net assets/equity interests that are not owned, directly or indirectly, through controlled entities, by the controlling entity. A minority interest may arise, for example, when at the whole-of-government level, the economic entity includes a GBE that has been partly privatized. Accordingly, there may be private shareholders who have a financial interest in the net assets/equity of the entity. The credit related to the recognition of a service concession asset does not meet this definition because operator does not have such a financial interest in the grantor.

BC32. The IPSASB agreed that the credit represents revenue. As a service concession arrangement is an exchange transaction, the IPSASB referred to IPSAS 9 when considering the nature of the revenue and the timing of the recognition of that revenue. In accordance with IPSAS 9, *Revenue from Exchange Transactions*, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue as it results in an increase in the net assets of the grantor.

In this situation, the grantor has received a service concession asset in exchange for granting a right (a license) to the operator to charge the third party users of the public service that it provides on the grantor's behalf. The service concession asset recognized by the grantor and the right (intangible asset) recognized by the operator are dissimilar. However, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

BC33. The IPSASB noted that, in this situation, there is no cash inflow to equal the revenue recognized. This result is consistent with IPSAS 9 in which an entity provides goods or services in exchange for another dissimilar asset that is subsequently used to generate cash revenues.

BC34. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

BC35. IPSAS 9 identifies three types of transaction that give rise to revenue: the rendering of services, the sale of goods (or other assets) and revenue arising from the use by others of the entity's assets, yielding interest, royalties, and dividends. In considering the nature of the revenue, the IPSASB considered these types of transactions separately.

BC36. The IPSASB considered the approaches to revenue recognition set out in IPSAS 9 in relation to the "grant of a right to the operator" model and concluded that none of those scenarios fully met the circumstances of this model. Nevertheless, the IPSASB noted that the timing of revenue recognition under each of them is over the term of the arrangement, rather than immediately. The IPSASB determined that, by analogy, such a pattern of revenue recognition was also appropriate for recognizing the revenue arising from the liability related to this model. As a result, until the criteria for recognition of revenue have been satisfied, the credit is recognized as a liability.

BC37~~18~~. The IPSASB considered whether the grantor should recognize the operating expenses in the circumstances described in paragraph ~~BC17~~BC27 relating to the grant of a right to the operator model. The IPSASB noted that the grantor's ~~performance obligation~~liability recognized relates solely to the service concession asset ~~recognized~~ received by the grantor. If the service expenses were recognized, the grantor would also have to recognize annually imputed revenue equal to the annual expense. The IPSASB did not believe this accounting would provide useful information, because revenue and an expense of equal amounts would be recognized annually. The IPSASB noted further that reliable information about the operator's expenses may not be available in any case. The IPSASB therefore concluded that the grantor should not recognize operating expenses associated with the service concession arrangement in the circumstances described in paragraph ~~BC17~~BC27.

Accounting Issues Addressed in other IPSASs

~~BC19~~BC38. Because of the complexity of many service concession arrangements ~~contracts~~, there may be additional accounting issues related to certain terms in the contract, or a similar binding arrangement (e.g., revenues, expenses, guarantees, and contingencies). The IPSASB

agreed that it was not necessary to repeat such existing guidance in this Standard. Accordingly, when an existing IPSAS specifies the accounting and reporting for a component of a service concession arrangement, that IPSAS is referred to in this Standard and no additional guidance is provided. However, the IPSASB noted some cases (e.g., revenue recognition), when the application of such IPSASs would be difficult given certain unique features in service concession arrangements. To ensure consistent implementation of this Standard, the IPSASB provided specific guidance on how the principles in the other IPSAS would be applied.

Transition

~~BC20~~BC39. This Standard requires an entity that has previously recognized service concession assets and related liabilities, revenues, and expenses to apply this Standard retrospectively in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. The Standard also requires an entity that has not previously recognized service concession assets and related liabilities, revenues, and expenses and uses the accrual basis of accounting to apply this Standard prospectively, although retrospective application is permitted in such cases. The general requirement in IPSAS 3 is that the changes should be accounted for retrospectively, except to the extent that retrospective application would be impracticable.

~~BC21~~BC40. The IPSASB noted that there are two aspects to retrospective determination: reclassification and remeasurement. The IPSASB took the view that it will usually be practicable to determine retrospectively the appropriate classification of all amounts previously included in a grantor's statement of financial position, but that retrospective remeasurement of service concession assets might not always be practicable, particularly if an entity has not previously recognized service concession assets and related liabilities, revenues, and expenses.

~~BC22~~BC41. The IPSASB noted that, when retrospective restatement is not practicable, IPSAS 3 requires prospective application from the earliest practicable date, which could be the start of the current reporting period.

BC42. Some respondents to ED 43 questioned why the general requirements in IPSAS 3 are not appropriate for an entity that has not previously recognized service concession arrangements.

BC43. When developing ED 43 the IPSASB had concerns relating to the practicality of determining the measurement of a service concession asset, and considered that this could result in inconsistent treatment of arrangements entered into in the past. This was a similar issue to that which arose in finalizing IPSAS 31, *Intangible Assets*. On that basis, the IPSASB considered it appropriate to propose transitional provisions in ED 43 that were consistent with those in IPSAS 31.

BC44. However, the IPSASB noted that the circumstances surrounding intangible assets differ from those in service concession arrangements. Notably, service concession arrangements generally involve long-term binding arrangements for which information required to develop fair value and cost information would likely be more readily available than it is for intangible assets acquired or developed in the past.

BC45. The IPSASB did however acknowledge that because many of these arrangements may have been entered into some time ago, it may be difficult to apply full retrospective application. As a result, the IPSASB considered that a "deemed cost" could be used to recognize and measure service concession assets. Deemed cost is determined for the earliest period for which comparative information is presented. The IPSASB concluded that deemed cost for service concession assets should be determined using the following measurement bases:

(a) For property, plant and equipment, IPSAS 17 allows revaluation using fair value or depreciated replacement cost, thus both are referred to in the proposals.

(b) For intangible assets IPSAS 31 only allows fair value for revaluation, thus the deemed cost is limited to fair value.

Effective Date

BC46. ED 43 did not propose an effective date for implementation. A respondent suggested that for entities to have the information available to be able to restate their prior year comparatives the effective date should be at least two years from the date of issue of the Standard. The IPSASB agreed with this suggestion and modified the Standard accordingly.To provide entities sufficient time to gather the information necessary to restate their comparative financial statements, the IPSASB concluded that the effective date of the Standard would be two years after its date of issue.

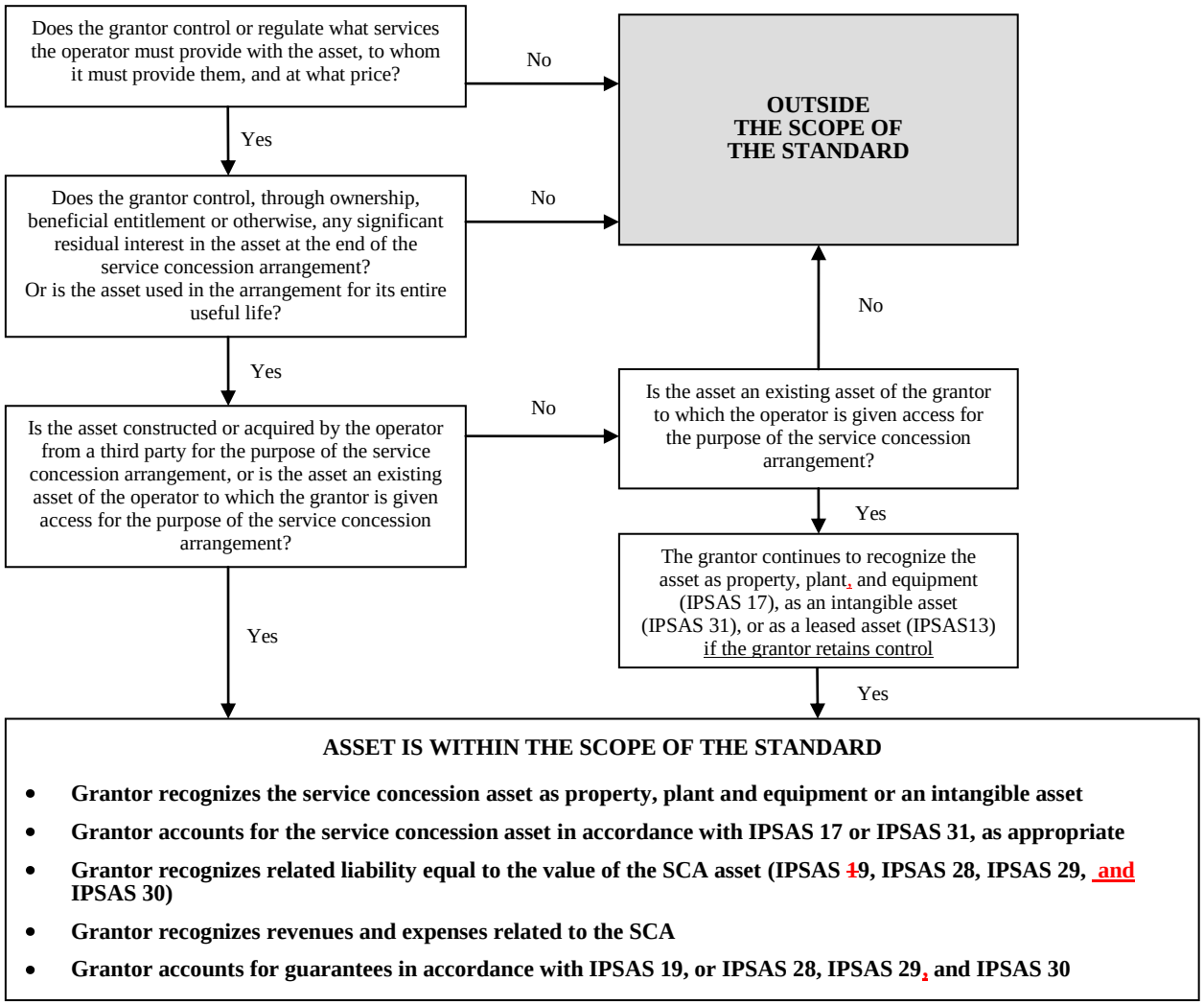
Implementation Guidance

This guidance accompanies, but is not part of, IPSAS ~~XX~~ 32 ~~(ED 43)~~.

The purpose of this Implementation Guidance is to illustrate certain aspects of the requirements of IPSAS ~~XX~~ 32 ~~(ED 43)~~.

Accounting Framework for Service Concession Arrangements

The diagram below summarizes the accounting for service concession arrangements established by this Standard.



References to IPSASs that Apply to Typical Types of Arrangements Involving an Asset Combined with Provision of a Service

The table sets out the typical types of arrangements for private sector participation in the provision of public sector services and provides references to IPSASs that apply to those arrangements. The list of arrangements types is not exhaustive. The purpose of the table is to highlight the continuum of arrangements. It is not the IPSASB's intention to convey the impression that bright lines exist between the accounting requirements for various types of arrangements.

Shaded text shows arrangements within the scope of this IPSAS.

	Lessee	**Service provider**			**Owner**	
Typical arrangement types	Lease (e.g., operator leases asset from grantor)	Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)	Rehabilitate-operate-transfer	"Build-operate-transfer"	"Build-own-operate"	100% Divestment/ Privatization/ Corporation
Asset ownership	Grantor				Operator	
Capital investment	Grantor		Operator			
Demand risk	Shared	Grantor	Grantor and/or Operator		Operator	
Typical duration	8–20 years	1–5 years	25–30 years			Indefinite (or may be limited by contract or license)
Residual interest	Grantor				Operator	
Relevant IPSASs	IPSAS 13	IPSAS 1	This IPSAS/IPSAS 17/ IPSAS 31		IPSAS 17/IPSAS 31 (derecognition) IPSAS 9 (revenue recognition)	

Illustrative Examples

These examples accompany, but are not part of, IPSAS ~~XX~~ 32~~(ED 43)~~.

These examples deal with only three of many possible types of service concession arrangements. Their purpose is to illustrate the accounting treatment for some features that are commonly found in practice. To make the illustrations as clear as possible, it has been assumed that the term of the service concession arrangement is only ten years and that the operator's annual receipts are constant over that period. In practice, terms may be much longer and annual revenues may increase with time.

Arrangement Terms (Common to All Three Examples)

In these examples, monetary amounts are denominated in "currency units" (CU).

These terms are common to the three examples that follow:

IE1. The terms of the arrangement require an operator to construct a road—completing construction within two years—and maintain and operate the road to a specified standard for eight years (i.e., years 3–10). The arrangement is within the scope of this Standard and the road meets the conditions for recognition of a service concession asset in paragraph ~~10~~ 9 (or paragraph ~~11~~ 10 for a whole-of-life asset).

IE2. The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8 at a fair value of CU110. The compensation to the operator for this service is included in the predetermined series of payments and/or the revenue the operator has the right to earn from the service concession asset or another revenue-generating asset granted to the operator by the grantor.

IE3. It is assumed that the original road surface is a separate component of the service concession asset and meets the criteria for recognition specified in IPSAS 17 when the service concession asset is initially recognized. It is further assumed that there is sufficient certainty regarding the timing and amount of the resurfacing work for it to be recognized as a separate component when the resurfacing occurs.[4] It is assumed that the expected cost of the resurfacing can be used to estimate the initial cost of the surface layers recognized as a separate component of the service concession asset. The road surface is therefore recognized as a separate component of the initial fair value of the service concession asset and measured at the estimated fair value of the resurfacing and depreciated over years 3–8. This depreciation period is shorter than that for the road base, and takes into account that resurfacing would ordinarily occur over six years, rather than 25 years.

IE4. Recognition of the replacement component of the road surface as a separate component of the service concession asset in year 8 also results in an increase in the liability recognized by the grantor. Where the liability ~~is a performance obligation~~relates to the grant of a right to the operator model, additional revenue in respect of this increase is recognized evenly over the term of the arrangement. However, if the expenditure represented an improvement in service potential such as a new traffic lane rather than restoration to original service capability then it

[4] If this was not the case (e.g., where the operator might resurface in future, or might incur additional maintenance over the period of the service concession arrangement), it might not be appropriate to recognize a component.

would be appropriate to instead recognize revenue relevant to that improvement only once it has occurred.

IE5. At the beginning of year 3, the total fair value of the road is CU1,083, comprised of CU973 related to the construction of the base layers and CU110 related to construction of the surface layers. The fair value of the surface layers is used to estimate the fair value of the resurfacing (which is treated as a replacement component in accordance with IPSAS 17). The estimated life of surface layers (i.e., six years) is also used to estimate the depreciation of the replacement component in years 9 and 10. The total initial fair value of the road is lower than the present value of the series of predetermined payments pertaining to the asset, where applicable.

IE6. The road base has an economic life of 25 years. Annual depreciation is taken by the grantor on a straight-line basis. It is therefore CU39 (973/25) for the base layers. The surface layers are depreciated over 6 years (years 3–8 for the original component, and starting in year 9 for the replacement component). Annual depreciation related to the surface layers is CU18 (CU110/6). There is no impairment in the value of the road over the term of the service concession arrangement.

IE7. The operator's cost of capital is not practicable to determine. The rate implicit in the service concession arrangement specific to the asset is 6.18%.

IE8. It is assumed that all cash flows take place at the end of the year.

IE9. It is assumed that the time value of money is not significant. Paragraph AG46 provides guidance on methods that may be appropriate where the time value of money is significant.

IE10. At the end of year 10, the arrangement will end. At the end of the arrangement, the operator will transfer the road to the grantor.

IE11. The total compensation to the operator under each of the three examples is inclusive of each of the components of the service concession arrangement and reflects the fair values for each of the services, which are set out in Exhibit 1.

IE12. The grantor's accounting policy for property, plant and equipment is to recognize such assets using the cost model specified in IPSAS 17.

Exhibit 1: Fair values of the components of the arrangement (currency units)

Contact Component	Fair Value
Road – base layers	973
Road – surface layers	110
Total FV of road	1,083
Annual service component	12
Effective interest rate	6.18%

Example 1: The Grantor makes a Predetermined Series of Payments to the Operator

Additional Terms

IE13. The terms of the arrangement require the grantor to pay the operator CU200 per year in years 3–10 for making the road available to the public. The total consideration (payment of CU200 in each of years 3–10) reflects the fair values for each of the services indicated in Exhibit 1. These payments are intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110.

Financial Statement Impact

IE14. The grantor initially recognizes the service concession asset as property, plant and equipment at its fair value (total CU1,083), comprised of CU973 related to construction of the base layers and CU110 related to construction of the surface layers. Depreciation is taken annually (CU57, comprised of CU39 for the base layers and CU18 for the surface layers).

IE15. The grantor initially recognizes a financial liability at fair value equal to the fair value of the asset in year 3 (CU1,083). Because the amount of the predetermined payment related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payment that reduces the liability. A finance charge at the implicit rate of 6.18% is recognized annually. The liability is subsequently measured at amortized cost, i.e., the amount initially recognized plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE16. The compensation for the road resurfacing is included in the predetermined series of payments. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of CU110/6 = CU18, beginning in year 9.

IE17. The compensation for maintenance and operating the road (CU12) is included in the predetermined series of payments. There is no cash flow impact related to this service expense; however, the grantor recognizes an expense annually.

IE18. The costs of services are accounted for in accordance with IPSAS 1.

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

IE19. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 1.1 to 1.3. In addition, Table 1.4 shows the changes in the financial liability.

Table 1.1 Cash flows (currency units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Predetermined series of payments	–	–	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)
Net inflow/ (outflow)	–	–	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(1,600)

Table 1.2 Statement of financial performance (currency units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Service expense	–	–	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(96)
Finance charge	–	–	(66)	(59)	(51)	(43)	(34)	(25)	(22)	(11)	(311)
Depreciation – base layers[5]	–	–	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(312)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(19)	(18)	(37)
Total depreciation	–	–	(57)	(58)	(57)	(57)	(58)	(57)	(58)	(57)	(459)
Annual surplus/ (deficit)	–	–	(135)	(129)	(120)	(112)	(104)	(94)	(92)	(80)	(866)

NOTES:

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9-10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.

[5] Although these Illustrative Examples use a straight-line depreciation method, it is not intended that this method be used in all cases. Paragraph 76 of IPSAS 17 requires that, "The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity." Likewise, for intangible assets, IPSAS 31 requires that, "The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life."

Table 1.3 Statement of financial position (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	–	973	934	895	856	817	778	739	700	661
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	91	73
Total Service concession asset	–	1,083	1,026	968	911	854	796	849	791	734
Cash	–	–	(200)	(400)	(600)	(800)	(1,000)	(1,200)	(1,400)	(1,600)
Financial liability	–	(1,083)	(961)	(832)	(695)	(550)	(396)	(343)	(177)	–
Cumulative surplus/deficit	–	–	135	264	384	496	600	694	786	866
Net assets	–	–	–	–	–	–	–	–	–	–

NOTES:

~~(c)~~1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 17 before the new component of the service concession asset related to the resurfacing is recognized.

~~(d)~~2. The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 1.2).

~~(e)~~3. The financial liability is increased in year 8 to match the recognition of the new component of the service concession asset.

Table 1.4 Changes in Financial Liability (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	–	1,083	961	832	695	550	396	343	177
Liability recognized along with initial service concession asset	–	1,083	–	–	–	–	–	–	–	–
Portion of predetermined series of payments that reduces the liability	–	–	(122)	(129)	(137)	(145)	(154)	(163)	(166)	(177)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	110	–	–
Balance carried forward	–	1,083	961	832	695	550	396	343	177	–

Example 2: The Grantor Gives the Operator the Right to Charge Users a Toll

Additional Arrangement Terms

IE20. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of CU200 in each of years 3–10. The total consideration (tolls of CU200 in each of years 3–10) reflects the fair values for each of the services indicated in Exhibit 1, and is intended to cover the cost of constructing the road, annual operating costs of CU12 and reimbursement to the operator for the cost of resurfacing the road in year 8 of CU110.

Financial Statement Impact

IE21. The grantor initially recognizes the service concession asset as property, plant and equipment at its fair value (total CU1,083), comprised of CU973 related to construction of the base layers and CU110 related to construction of the surface layers. Depreciation is taken annually (CU57, comprised of CU39 for the base layers and CU18 for the surface layers).

IE22. As consideration for the service concession asset, the grantor ~~incurs a performance obligation~~recognizes a liability under the grant of a right to the operator model ~~to provide the operator with access to the asset~~ by granting the operator the right to collect tolls of CU200 in years 3–10.

IE23. The ~~performance obligation~~liability is reduced over years 3–10, and the grantor recognizes revenue on that basis because access to the service concession asset is expected to be provided evenly over the term of the service concession arrangement.

IE24. The compensation for the road resurfacing is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of CU110/6 = CU18, beginning in year 9.

IE25. The compensation for maintenance and operating the road (CU12) is included in the tolls the operator expects to earn over the term of the service concession arrangement. There is no financial statement impact related to this service expense. It does not affect cash flow because the grantor has no cash outflow. It is not recognized as an operating expense because the fair value of the asset and liability initially recognized do not include any service costs the operator may incur.

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

IE26. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 2.1 to 2.3. In addition, Table 2.4 shows the changes in the ~~performance obligation~~liability.

Table 2.1 Cash flows (currency units)

Because there are no payments made to the operator, there are no cash flow impacts for this example.

Table 2.2 Statement of financial performance (currency units)

Year	1	2	3	4	5	6	7	8	9	10	Total
Revenue (reduction of ~~performance obligation~~liability)	–	–	149	149	149	149	149	149	150	149	1,193
Depreciation – base layers	–	–	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(312)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(19)	(18)	(37)
Depreciation – surface layers	–	–	(18)	(19)	(18)	(18)	(19)	(18)	(19)	(18)	(147)
Total depreciation	–	–	(57)	(58)	(57)	(57)	(58)	(57)	(58)	(57)	(459)
Annual surplus/(deficit)	–	–	92	91	92	92	91	92	92	92	734

NOTES:

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.
3. The revenue (reduction of the ~~performance obligation~~liability) includes revenue from the additional ~~performance obligation~~liability (Table 2.3).
4. All revenue is recognized evenly over the term of the arrangement.

Table 2.3 Statement of financial position (currency units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Service concession asset – base layers	–	973	934	895	856	817	778	739	700	661
Service concession asset – original surface layer	–	110	92	73	55	37	18	–	–	–
Service concession asset – replacement surface layer	–	–	–	–	–	–	–	110	91	73
Total Service concession asset	–	1,083	1,026	968	911	854	796	849	791	734
Cash	–	–	–	–	–	–	–	–	–	–
~~Performance obligation~~Liability	–	(1,083)	(934)	(785)	(636)	(487)	(338)	(299)	(149)	–
Cumulative surplus/deficit	–	–	(92)	(183)	(275)	(367)	(458)	(550)	(642)	(734)
Net assets	–	–	–	–	–	–	–	–	–	–

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 17 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession asset related to the resurfacing is recognized in year 8.
3. Years 9–10 reflect deprecation on this additional component (Table 2.2) over the estimated useful life of surface layers.
4. The ~~performance obligation~~liability is increased in year 8 by CU110 (CU338-CU135+CU110 = CU299) to match the recognition of the new component of the service concession asset.

Table 2.4 Changes in ~~Performance Obligation~~Liability (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	–	1,083	934	785	636	487	338	299	149
Liability recognized along with initial service concession asset	–	1,083	–	–	–	–	–	–	–	–
Revenue (reduction of ~~performance obligation~~liability)	–	–	(149)	(149)	(149)	(149)	(149)	(149)	(150)	(149)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	110	–	–
Balance carried forward	–	1,083	934	785	636	487	338	299	149	–

Example 3: The Grantor Makes a Predetermined Series of Payments to the Operator and Also Grants the Operator the Right to Charge Users a Toll for Use of the Road

Additional Arrangement Terms

IE27. The terms of the arrangement allow the operator to collect tolls from drivers using the road. The operator forecasts that vehicle numbers will remain constant over the duration of the arrangement and that it will receive tolls of CU100 in each of years 3–10. The arrangement also requires the grantor to make a predetermined series of payments to the operator of CU100 annually. The fair value of the right to collect tolls and the predetermined series of payments are considered to compensate the operator equally (i.e., 50% from each form of compensation to the operator).

Financial Statement Impact

IE28. The grantor initially recognizes the service concession asset as property, plant and equipment at its fair value (total CU1,083), comprised of CU973 related to construction of the base layers and CU110 related to construction of the surface layers. Depreciation is taken annually (CU 57, comprised of CU39 for the base layers and CU18 for the surface layers).

IE29. As consideration for the service concession asset, the grantor ~~incurs~~ recognizes a ~~performance obligation~~liability (CU542) ~~to provide the operator with access to the asset~~under the grant of a right to the operator model by granting the operator the right to collect tolls of CU100 in years 3–10.

IE30. The grantor's obligation related to the right granted to the operator to charge tolls and the predetermined payments are regarded as two separate items. Therefore in this

arrangement it is necessary to divide the grantor's consideration to the operator into two parts—a ~~performance obligation~~liability and a financial liability.

IE31. The ~~performance obligation~~liability of CU100 is reduced over years 3–10, and the grantor recognizes revenue on the same basis because the tolls are expected to be earned evenly over the term of the service concession arrangement.

IE32. The grantor initially recognizes a financial liability at fair value equal to half of the fair value of the asset at the beginning of year 3 (CU541); the other half of the fair value of the asset at the beginning of year 3 is matched by the performance liability. Because the amount of the predetermined payments related to the service component of the service concession arrangement is known, the grantor is able to determine the amount of the payments that reduces the liability. A finance charge at the implicit rate of 6.18% is recognized annually. The liability is subsequently measured at amortized cost, i.e., the amount initially recognized plus the finance charge on that amount calculated using the effective interest method minus repayments.

IE33. The operator is compensated for the road resurfacing (CU110) equally through the tolls the operator expects to earn over the term of the service concession arrangement and the series of predetermined payments (i.e., 50% from each). There is no direct cash flow impact related to the road resurfacing; however, the grantor recognizes the resurfacing as an asset when the work is undertaken and recognizes depreciation expense of CU110/6 = CU18, beginning in year 9.

IE34. The operator is compensated for maintenance and operating the road (CU12) equally through the tolls the operator expects to earn over the term of the service concession arrangement and the predetermined payment (i.e., 50% from each). There is no direct cash flow impact related to this service expense because the grantor has no cash outflow. However, the grantor recognizes an expense annually for the portion of the compensation related to the series of predetermined payments (CU6). There is no financial statement impact for the remaining CU6 of this service expense. It is not recognized as an operating expense because the fair value of the asset and liability initially recognized do not include any service costs the operator may incur.

IE35. The grantor's cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 3.1 to 3.3. In addition, Table 3.4 shows the changes in the ~~performance obligation~~liability and Table 3.5 shows the changes in the financial liability.

Overview of Cash Flows, Statement of Financial Performance, and Statement of Financial Position

Table 3.1 Cash flows (currency units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
Predetermined series of payments	–	–	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)
Net inflow/(outflow)	–	–	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(800)

Table 3.2 Statement of financial performance (currency units)

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**Total**
Revenue (reduction of ~~performance obligation~~liability)	–	–	74	75	74	75	75	75	75	74	597
Service expense	–	–	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(48)
Finance charge	–	–	(33)	(30)	(25)	(22)	(17)	(12)	(11)	(6)	(156)
Depreciation – base layers	–	–	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(39)	(312)
Depreciation – original surface layer	–	–	(18)	(19)	(18)	(18)	(19)	(18)	–	–	(110)
Depreciation – replacement surface layer	–	–	–	–	–	–	–	–	(19)	(18)	(37)
Total depreciation	–	–	(57)	(58)	(57)	(57)	(58)	(57)	(58)	(57)	(459)
Annual surplus/(deficit)	–	–	(22)	(19)	(14)	(10)	(6)	–	–	5	(663)

NOTES:

1. Depreciation in years 3-8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period.
2. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8 over the estimated useful life of surface layers (6 years).
3. The revenue (reduction of the ~~performance obligation~~liability) includes revenue from the additional ~~performance obligation~~liability (Table 3.3).
4. All revenue is recognized evenly over the term of the arrangement.

Table 3.3 Statement of financial position (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Service concession asset – base layers	–	973	934	895	856	817	778	739	700	661
Service concession asset – surface layer	–	110	92	73	55	37	18	–	–	–
SCA asset – replacement surface layer	–	–	–	–	–	–	–	110	91	73
Total SCA asset	–	1,083	1,026	968	911	854	796	849	791	734
Cash	–	–	(100)	(200)	(300)	(400)	(500)	(600)	(700)	(800)
~~Performance obligation~~Liability	–	(542)	(468)	(393)	(319)	(244)	(169)	(149)	(74)	–
Financial liability	–	(541)	(480)	(416)	(347)	(275)	(198)	(171)	(88)	–
Cumulative surplus/deficit	–	–	22	41	55	65	71	71	71	66
Net assets	–	–	–	–	–	–	–	–	–	–

NOTES:

1. In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 17 before the new component of the service concession asset related to the resurfacing is recognized.
2. The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect deprecation on this additional component (Table 3.2).
3. The ~~performance obligation~~liability in year 8 reflects an increase of CU55 (CU169 - CU75 + CU55 = CU149) to match the recognition of the new component of the service concession asset.
4. The financial liability in year 8 reflects an increase of CU55 (CU198 + CU12 + CU6 + CU55 - CU100 = CU 171) to match the recognition of the new component of the service concession asset.

Table 3.4 Changes in ~~Performance Obligation~~Liability (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	–	542	468	393	319	244	169	149	74
Liability recognized along with initial Service concession asset	–	542	–	–	–	–	–	–	–	–
Revenue (reduction of ~~performance obligation~~liability)	–	–	(74)	(75)	(74)	(75)	(75)	(75)	(75)	(74)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	55	–	–
Balance carried forward	–	542	468	393	319	244	169	149	74	–

Table 3.5 Changes in Financial Liability (currency units)

Year	1	2	3	4	5	6	7	8	9	10
Balance brought forward	–	–	541	480	416	347	275	198	171	88
Liability recognized along with initial Service concession asset	–	541	–	–	–	–	–	–	–	–
Portion of predetermined series of payments that reduces the liability	–	–	(61)	(64)	(69)	(72)	(77)	(82)	(83)	(88)
Liability recognized along with replacement surface layers	–	–	–	–	–	–	–	55	–	–
Balance carried forward	–	541	480	416	347	275	198	171	88	–



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Objective

To assess the need for re-exposure of the proposed IPSAS, *Service Concession Arrangements: Grantor* using the IFAC standards-setting public interest activity committees' due process and working procedures (March 2010).

Background

Re-exposure of proposed pronouncements, while allowed for under due process, is expected to be a rare and unusual occurrence.

The IPSASB does not have documented criteria for re-exposure. However, the other Public Interest Activity Committees of IFAC have documented "Due Process and Working Procedures" which are appropriate to apply in this circumstance. Appendix 1 sets out the full due process and working procedures document.

For the purposes of this meeting, staff has identified the most relevant paragraphs of these working procedures to be paragraphs 20 through 26 as well as paragraphs A38 through A42. An extract has been included below for ease of reference. These criteria are used to assess the three main issues identified in Agenda Paper 3.0:

- Transitional provisions;
- Treatment of the credit arising on recognition of a service concession asset under the "grant of a right to the operator" model (formerly referred to as "performance obligation" issue); and
- Capital-work-in-progress.

IFAC Standards-Setting Public Interest Activity Committee (PIAC) Criteria for Re-exposure (Extract from "Due Process and Working Procedures" Document)

Below is an extract of the relevant portions that set out the process for approval of proposed final content of exposed materials.

Approval of an International Pronouncement, and Consideration of the Need for Re-Exposure

20. When the Project Task Force is satisfied that it has a proposed final international pronouncement that is ready for approval, it presents the revised content of the exposed international pronouncement to the PIAC for approval.

21. The senior staff member of the PIAC is responsible for advising the PIAC on whether due process has been followed effectively and with proper regard for the public interest before a final international pronouncement is approved for issue. (Ref: Para. A36-A37)

22. The PIAC votes on the approval of the final revised content of an exposed international pronouncement in accordance with its terms of reference. Approval of the final revised content of an exposed international pronouncement is an approval for its issue as a final international pronouncement, unless the PIAC subsequently votes in favor of re-exposure as described below. (Ref: Para. A38-A39)

23. After approving the final revised content of an exposed international pronouncement, the PIAC votes on whether there has been substantial change to the exposed document such that re-exposure is necessary. An affirmative vote in accordance with the PIAC's terms of reference that re-exposure is necessary is required to issue a re-exposure draft. The basis of the PIAC's decisions with respect to re-exposure is recorded in the minutes of the PIAC meeting at which the related project is discussed. (Ref: Para. A40-A42)

24. When an exposure draft is re-exposed, the explanatory memorandum accompanying the re-exposure draft includes the reasoning for re-exposure and sufficient information to allow an understanding of the changes made as a result of the earlier exposure.

25. Where applicable, the PIAC will set an effective date for the application of the final international pronouncement. (Ref: Para. A43)

26. For each final international pronouncement, the PIAC issues a separate document explaining its basis for conclusions with respect to comments received on an exposure draft. (Ref: Para. A44)

In terms of process, paragraph 22 highlights that the Board votes on approval of the final revised content as the first step in the approval process. Paragraph 23 highlights that only after approving the final revised content does the Board take the second step to vote on whether re-exposure is necessary. Paragraph 22 notes that approval of final content is for its issue as a final IPSAS unless an affirmative vote for re-exposure is subsequently made in the second step. Under paragraph 23 an affirmative vote in accordance with the terms of reference requires that 2/3 of Board members vote in favour of re-exposure in order for a re-exposure draft to be issued. If 2/3 of Board members do not vote in favour of re-exposure, the approved final content is issued as a final IPSAS.

Paragraphs A38 through A42 set out below highlight the process when re-exposure is being considered, including possible criteria to be considered.

Approval (Ref: Para. 22)

A38. The results of voting, including dissenting votes and the reason(s) therefore, on the approval of the revised content of an exposure draft are recorded in the minutes of the meeting.

A39. The agenda paper containing the draft proposed revised content of exposed international pronouncement is updated for changes agreed by the PIAC during the course of the meeting and is posted to the IFAC website after the meeting at which the PIAC approves the final international pronouncement. The updated agenda paper posted to the IFAC website is for information purposes only and is not the final pronouncement. The final pronouncement is that approved by the PIAC and published by IFAC after the PIOB has confirmed that due process was followed in its development.

Re-Exposure (Ref: Para. 23)

A40. When an exposure draft has been subject to many changes, a summary comparative analysis is presented to the PIAC. This analysis shows, to the extent practicable, the differences between the exposure draft and the proposed final international pronouncement.

A41. The senior staff member of the PIAC, in consultation with the Chair of the PIAC and chair of the Project Task Force, advises the PIAC on whether a draft international pronouncement, or part thereof, needs to be re-exposed.

A42. Situations that constitute potential grounds for a decision to re-expose may include, for example: substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the PIAC before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the PIAC; or substantial change to the substance of a proposed international pronouncement.

There are two important aspects to highlight. Firstly, it is important to note that the working procedures are not prescriptive in terms of specific criteria. The wording of paragraph A42 is purposely broad to provide examples of possible criteria for re-exposure but leaves open the possibility of others, as evidenced in the language "may include".

Secondly, it is a matter of the Board's judgment as to whether re-exposure is necessary. In some cases meeting a single criterion may be sufficient in the Board's judgment to require re-exposure. In other cases it may be necessary that multiple criteria are met before the Board makes a judgment that re-exposure is required. Ultimately, the Board must analyze the proposed changes in that context and make a judgment and vote on whether re-exposure is necessary.

Proposed Criteria for Determining whether Re-Exposure is Required

Staff considered the guidance in paragraph A42 in the shaded text above in determining whether re-exposure is required. In particular, the following criteria were considered for each of the three main accounting issues for which changes were made to ED 43:

- **Were substantial changes made to ED 43 arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known?**
- **Were substantial changes made to ED 43 arising from matters not previously deliberated?**
- **Were substantial changes made to the substance of the proposed IPSAS?**

For purposes of this analysis staff has considered the three main issues noted previously against the above criteria. In addition, staff has assessed the proposed IPSAS as a whole.

Analysis of Specific Changes to ED 43

1. Retrospective application in the transitional provisions

Were substantial changes made to ED 43 arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known?

ED 43 contained transitional provisions that were inconsistent for entities that had, and had not, previously recognized service concession assets. Staff considers the change in the transitional provisions to require retrospective application of the proposed IPSAS, for those entities that had not previously recognized service concession assets, to be a change that addresses ED 43 respondents' concerns with the inconsistency in the exposed provisions. The provisions subject to exposure for this group of entities could be considered less onerous in that they did not require retrospective application as was the case for entities that had previously recognized service concession assets. IPSAS 3 makes provision for cases where retrospective application is impracticable. If the information is available, it is difficult to support a difference in treatment as was the case in ED 43 and pointed out by respondents.

Staff notes that if the information is available, there would be some work which could add to the costs of preparing the information under the revised proposals for those entities affected. Since ED 43 permitted retrospective application, some entities may have chosen to retroactively apply the standard without modification. If the information is not available, the IPSAS 3 provision would take effect. Thus, the change would not be significant in all cases.

Further, staff considers the only argument affected entities would make against the revised transitional provisions to be if they have the information available to retrospectively recognize service concession assets and do not want to report it. Indeed, if this is the argument affected entities would be expected to raise against the revised transitional provisions, the IPSASB needs to consider whether such an argument would be a valid reason to reconsider the proposal if it were subject to re-exposure. If not, then staff considers that sufficient information was obtained on this issue during initial exposure.

Re-exposure would not, therefore, be expected to yield additional information that the IPSASB has not considered during initial exposure of ED 43 and in making the changes to address respondents' concerns.

Were substantial changes made to ED 43 arising from matters not previously deliberated?

The IPSASB had deliberated the issue of the transitional provisions in approving ED 43, but did not specifically consider whether the inconsistency between entities that have and have not recognized service concession assets previously is appropriate. Staff considers the revised transitional provisions to produce a better end result (i.e., consistency and comparability among entities that have and have not recognized service concession assets previously).

Were substantial changes made to the substance of the proposed IPSAS?

Staff considers the change to the transitional provisions to be one of substance, as some entities would be required to recognize additional service concession assets (and related liabilities) to those they would have under ED 43. Even if information is available, they would incur an additional cost. It is noted that this would, however, be offset by the additional benefits of more transparent information for accountability purposes.

Staff considers that the approach taken in amending the transitional provisions is based on respondents' comments. The IPSASB has considered alternative provisions and determined based on its analyses that the revised proposals are the most appropriate in the circumstances. Accordingly, in staff's view, the IPSASB has obtained sufficient evidence supporting its amended position (and related guidance and Basis for Conclusions).

2. Refinement of the "performance obligation" issue

Were substantial changes made to ED 43 arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known?

ED 43 required the recognition of a liability when the operator was granted the right to earn third-party revenues in exchange for the service concession asset. ED 43 described this liability as a performance obligation, which was inconsistent with the nature of the transaction (i.e., an exchange transaction). Several respondents to ED 43 asked for clarification of the nature of the liability. In addition, the IPSASB considered a view raised by a few respondents that in such cases, the credit should be considered net assets/equity. The IPSASB considered these views in arriving at the revised treatment in the proposed IPSAS.

Staff considers this change to be one of refining the conceptual underpinning of the credit directly in response to respondents' requests for a more conceptual justification of the proposed treatment of the credit. The changes made to ED 43 are to justify, by reference to existing IPSASs, the nature of the credit (revenue) and the pattern in which revenue is earned. Staff considers that the amendments made to ED 43 to refine the treatment on a basis consistent with existing IPSASs and strengthen the arguments used to support the treatment of the credit will lead to better constituent understanding of the standard.

Re-exposure would not, therefore, be expected to yield additional information that the IPSASB has not considered during initial exposure of ED 43 and in making the changes to address respondents' concerns.

Were substantial changes made to ED 43 arising from matters not previously deliberated?

Staff considers that the revisions better mirror the requirements for the operator in IFRIC 12, an approach which was strongly supported by respondents to ED 43. As noted above, the approach proposed in ED 43 did not appropriately achieve this objective of ED 43, and respondents' comments highlighted the issue.

Staff considers that, given the varied nature of the comments, and the fact that the approach taken in amending ED 43 is based on respondents' comments, the IPSASB has deliberated the changes made to ED 43 and that all possible treatments of the credit arising in the "grant of a right to the operator" model have been raised and considered by the IPSASB, and the IPSASB has obtained sufficient evidence supporting its amended position (and related guidance and Basis for Conclusions).

Were substantial changes made to the substance of the proposed IPSAS?

The proposed accounting treatment (see agenda paper 3.0) does not create a substantive change to the substance of the proposed IPSAS, nor does it place a more onerous burden on the preparer.

3. The treatment of "capital work-in-progress"

Were substantial changes made to ED 43 arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known?

ED 43 clearly indicated the IPSASB's intent to "mirror" IFRIC 12 and the underlying principle that IPSAS 17, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets* apply to the accounting for service concession assets once it is determined the asset meets the control criteria and should be recognized. Guidance was provided that was inconsistent with that intent. Respondents to ED 43 pointed out that inconsistency, to which the IPSASB responded with the proposed changes set out in agenda paper 3.0.

Staff notes that the amended guidance does not affect all entities with service concession assets, as not all service concession assets are constructed or developed over a period of time. Further, if entities affected by the change had followed the principles in ED 43 they would have noted the inconsistency at that time and they would have been required to recognize assets (and related liabilities) on a basis consistent with the clarified guidance that better supports those principles. Thus, there would be no financial statement impact expected from the amended guidance.

Re-exposure would not, therefore, be expected to yield additional information that the IPSASB has not considered during initial exposure of ED 43 and in making the changes to address respondents' concerns.

Were substantial changes made to ED 43 arising from matters not previously deliberated?

As indicated above, in issuing ED 43, the IPSASB included guidance that was inconsistent with the IFRIC 12 "mirror" approach it had adopted in the ED, and with the requirements to follow IPSAS 17 and IPSAS 31 to account for service concession assets. After redeliberations based on the comments received on this the issue, the IPSASB considers it has removed the inconsistency by amending the Application Guidance to be consistent with the underlying principle set out in ED 43.

Were substantial changes made to the substance of the proposed IPSAS?

Staff does not consider substantial changes were made to the substance of the proposed IPSAS. The substance of ED 43, as noted above, is the requirement in ED 43 to follow IPSAS 17 or IPSAS 31, as appropriate.

Is Re-Exposure Necessary?

In considering the analyses above, staff notes that the decision on each issue individually or in total might have an impact on re-exposure and the process. For example, the working procedures allow for partial re-exposure (see paragraph A41).

However, the decision to allow partial re-exposure of only the revised content would need to be considered carefully in the context of the judgment related to each of the issues above. For example, it is staff's view that for the performance obligation issue and the capital work-in-progress issue it would be difficult to undertake only partial re-exposure since these are more integrally woven into the proposed IPSAS. Partial re-exposure might be an option if only one change is judged to require re-exposure. If all three issues were judged to require re-exposure then partial re-exposure is not an option in staff's view.

In assessing the need for re-exposure the Board needs to consider each of the issues above as well as considering the final approved content as a whole.

Staff notes that an overarching consideration in assessing the need for re-exposure is whether the IPSASB is likely to obtain new information that it has not already considered as a result of the exposure process, on any, or all of those issues. For example, to the extent that the IPSASB is refining or clarifying the intent of the principles in ED 43 to address ED respondents' comments, it can be argued that sufficient information has already been obtained during the exposure process to support the proposed IPSAS content (i.e., the IPSASB has fully considered all the arguments on both sides of the issue that may be raised, and has made a judgment that the proposed content is the most appropriate—comments that may be obtained on the three key issues are not likely to surface any issues or alternatives that the ISPASB has not fully considered in developing that content).

Transitional provisions

The proposed change to ED 43 will not affect all entities—only those that have not previously recognized service concession assets and have information that is available. Staff considers that the amendments to the transitional provisions in the proposed IPSAS may involve some additional costs, but only for those entities affected. The extent of the impact in terms of the number of such entities is not readily identifiable, but it could be assumed that the amounts involved for each one affected could be significant.

ED 43 had created this different treatment for entities that had not previously recognized service concession assets. Respondents argued, and the Board agreed, that a difference in treatment is not appropriate. The result will be that some entities which would not have recognized service concession assets (and related liabilities) under ED 43 for service concession arrangements that are currently in force would now be required to recognize these if they have the information available.

"Grant of a right to the operator" approach

As far as the amendments to ED 43 to incorporate the "grant of a right to the operator" approach, Staff does not believe that any new information is expected to be obtained that the IPSASB did not consider in the due process surrounding ED 43. The proposed accounting treatment does not create a substantive change in the reporting.

"Capital work-in-progress"

As far as the amendments to ED 43 to address the "capital work in progress" issue, it is the staff's view that the principles set out in ED 43 (i.e., mirror image and the requirements to follow IPSAS 17 or IPSAS 31, as appropriate) are unchanged and that the guidance related to the principles has been refined and improved so it is consistent with those principles. Therefore, this is not a substantive change to the principles. Rather the guidance has been amended to address the inconsistencies raised by respondents to ED 43.

Overall

On balance, considering the analyses above, the staff is of the view that the changes to the proposed IPSAS, *Service Concession Arrangements: Grantor* respond to the comments received on the ED, and that re-exposure of the proposed IPSAS, in whole or in part, is not necessary.

Staff would add that the process of re-exposure presents the potential additional burden on the IPSASB's constituents and the IPSASB of re-opening issues on which the Board and respondents, in general, have already agreed. Staff is of the view that the revisions made to ED 43 will produce a much needed IPSAS on a timely basis, with strong conceptual support. Staff does not expect new arguments to be presented that would change the IPSASB's decisions on those issues as reflected in the proposed revised content.

Staff position

Staff does not consider that re-exposure is required for any of the specific issues for the reasons set out above. Further, staff is of the view that re-exposure of the entire document is not necessary, notwithstanding that the document reflects a number of positive changes to refine the guidance from ED 43. As argued above, none of the individual changes rises to the level anticipated by the IFAC due process criteria, and thus it is also difficult to argue that the changes in total substantively change the intent and principles underlying ED 43. As a result, staff does not believe the costs of re-exposing would exceed the benefits in terms of new insights that may be gained on these issues.

Question for the IPSASB:

Do you agree with staff's overall conclusion that re-exposure is not required?

Appendix 1 – PIAC *Due Process and Operating Procedures* Document

IFAC's STANDARDS-SETTING PUBLIC INTEREST ACTIVITY COMMITTEES' DUE PROCESS AND WORKING PROCEDURES—March 2010

In promulgating international pronouncements, including international Standards, IFAC's standards-setting Public Interest Activity Committees (PIACs) adopt the following due process and working procedures. The term "international pronouncements" refers to the PIACs' authoritative documents that are indicated in the PIACs' Terms of Reference as being subject to due process for their development.

Matters of due process are identified in paragraphs 1–30 of this document. Only final international pronouncements issued by the PIAC after the Public Interest Oversight Board (PIOB) concludes that due process has been followed effectively and with proper regard for the public interest are authoritative.

Working procedures, shown in a separate section of this document, are steps adopted by the PIAC to facilitate the operation of its due process but are not themselves part of the due process. Working Procedures may be modified in practice to reflect unique circumstances of the individual PIAC or, as considered necessary, to respond to changes in circumstance. The PIOB is informed of significant modifications in practice made to the working procedures and the basis for them.

Due Process

General

1. PIAC meetings to discuss the development, and to approve the issue, of international pronouncements are open to the public. Matters of a general administrative nature or with privacy implications may be dealt with in closed sessions of the PIAC. (Ref: Para. A1)
2. Meeting agenda papers, including issues papers and draft international pronouncements prepared for the PIAC's review and debate and minutes of the immediately preceding meeting of the PIAC, are published on the IFAC website in advance of each PIAC meeting. (Ref: Para. A2-A5)
3. Meetings and agenda papers are in English, which is the official working language of IFAC.

Project Identification and Prioritization

4. The PIAC identifies potential new projects based on a review of national and international developments and on comments and suggestions from those who have an interest in the development of international pronouncements issued by the PIAC. To facilitate this process, the PIAC periodically develops and approves, based on appropriate consultation, a strategy and work program. (Ref: Para. A6-A8)

5. In setting its strategy and work program, the PIAC obtains the PIOB's conclusion as to whether the due process used to develop the PIAC's strategy and work program has been followed effectively and with proper regard for the public interest. The PIAC also obtains the PIOB's opinion, as at the date of that opinion, on the appropriateness of the items on the PIAC's work program, and its approval of the completeness of the strategy and work program from a public interest perspective. The PIAC adds to its work program those items that the PIOB resolves should, from a public interest perspective, form part of the PIAC's work program. Annually, the PIAC discusses the PIAC's up-coming year's work program with the PIOB.

Project Commencement

6. A proposal to start a new project is prepared based on research and on appropriate consultation within the PIAC, with consideration given to the costs and benefits of the anticipated output of the proposed project. The project proposal is circulated to other IFAC Boards and Committees to identify matters of possible relevance to the project. The PIAC considers and prioritizes the project proposal having regard to the public interest. As appropriate, the PIAC approves, amends or rejects the project proposal in a meeting open to the public. (Ref: Para. A9-A10)

Development of Proposed International Pronouncements

7. The PIAC may assign responsibility for a project to a Project Task Force. (Ref: Para. A11-A16)

8. The PIAC considers whether to hold a public forum or roundtable, or issue a consultation paper, in order to solicit views on a matter under consideration. The PIAC also considers the appropriateness of conducting a field test of the application of its proposals for a new or revised international pronouncement. The decision to undertake any of these steps may be made at any stage before or after a draft international pronouncement is issued for public exposure. The rationale for the PIAC's decision in relation to these steps is discussed at a PIAC meeting and the decision minuted. Comments received through a public forum or roundtable, or the issue of a consultation paper, are considered in the same manner as comments received on an exposure draft. (Ref: Para. A17-A18)

9. When the Project Task Force is satisfied that it has a proposed draft international pronouncement that is ready for exposure, it presents the draft to the PIAC. (Ref: Para. A19)

10. The PIAC votes on the approval of an exposure draft of the proposed international pronouncement in accordance with the PIAC's terms of reference. In voting in favor of the release of an exposure draft, a member of the PIAC is confirming that he or she is satisfied that the draft would form an acceptable international pronouncement in the event that no comments were received on exposure that required the PIAC to amend the proposals. (Ref: Para. A20)

Public Exposure

11. Approved draft international pronouncements are exposed for public comment. Exposure drafts are placed on the IFAC website where they can be accessed free of charge by the general public. Each exposure draft is accompanied by an explanatory memorandum that highlights the objective(s) of and the significant proposals contained in the draft international pronouncement, as well as the PIAC's view on the main issues addressed in the development thereof. (Ref: Para. A21-A22)

12. The exposure period will ordinarily be no shorter than 90 days.[1] (Ref: Para. A23-A24)

13. Comments made by respondents to an exposure draft are a matter of public record and are posted on the PIAC website after the end of the exposure period. (Ref: Para. A25-A27)

Consideration of Respondents' Comments on an Exposure Draft

14. To facilitate the deliberative process, the Project Task Force provides the PIAC, as part of the PIAC's public agenda papers, with an analysis that summarizes the significant issues raised by respondents, outlines their proposed disposition and, as appropriate, explains the reason(s) significant changes recommended by a respondent(s) are, or are not, to be accepted. (Ref: Para. A28-A29)

15. Members of the PIAC familiarize themselves with the issues raised in comment letters on exposure drafts such that they are able to make well informed decisions as they finalize an international pronouncement. The PIAC deliberates significant matters raised in the comment letters received, with significant decisions recorded in the minutes of the meeting of the PIAC. (Ref: Para. A30-A31)

16. At the meeting in which the PIAC deliberates significant matters raised in the comment letters received, members of the PIAC are asked whether there are any issues raised by respondents, in addition to those summarized by the Project Task Force, that they consider should have been discussed by the PIAC. This does not, however, preclude a member of the PIAC from raising a matter for discussion at a later time.

Interaction with the PIAC's Consultative Advisory Group

17. The PIAC is responsible for consulting with the PIAC's Consultative Advisory Group (CAG) on the identification and prioritization of projects to be undertaken by the PIAC. In particular, the PIAC's CAG is consulted on the PIAC's strategy and work program, including project priorities and any changes therein, to help establish their appropriateness. Where the PIAC's CAG has recommended a project for consideration by the PIAC, the Chair of the PIAC informs the PIOB and the PIAC's CAG of the decisions of the PIAC.

18. The PIAC is also responsible for consulting with the PIAC's CAG during the development and finalization of an international pronouncement. In particular, the PIAC's CAG is consulted on: (Ref: Para. A32-A33)

    - Proposals to start new projects;

[1] For the International Auditing and Assurance Standards Board, the exposure period will ordinarily be 120 days.

- Significant issues relating to the development of an international pronouncement; and
- Significant issues raised in comment letters on exposure drafts and the PIAC's related response.

19. The Chair of the PIAC or the Project Task Force is responsible for bringing to the PIAC's attention significant comments received through the consultation with the PIAC's CAG. The Project Task Force reports back to the PIAC's CAG the results of the PIAC's deliberations thereon. (Ref: Para. A34-A35)

Approval of an International Pronouncement, and Consideration of the Need for Re-Exposure

20. When the Project Task Force is satisfied that it has a proposed final international pronouncement that is ready for approval, it presents the revised content of the exposed international pronouncement to the PIAC for approval.

21. The senior staff member of the PIAC is responsible for advising the PIAC on whether due process has been followed effectively and with proper regard for the public interest before a final international pronouncement is approved for issue. (Ref: Para. A36-A37)

22. The PIAC votes on the approval of the final revised content of an exposed international pronouncement in accordance with its terms of reference. Approval of the final revised content of an exposed international pronouncement is an approval for its issue as a final international pronouncement, unless the PIAC subsequently votes in favor of re-exposure as described below. (Ref: Para. A38-A39)

23. After approving the final revised content of an exposed international pronouncement, the PIAC votes on whether there has been substantial change to the exposed document such that re-exposure is necessary. An affirmative vote in accordance with the PIAC's terms of reference that re-exposure is necessary is required to issue a re-exposure draft. The basis of the PIAC's decisions with respect to re-exposure is recorded in the minutes of the PIAC meeting at which the related project is discussed. (Ref: Para. A40-A42)

24. When an exposure draft is re-exposed, the explanatory memorandum accompanying the re-exposure draft includes the reasoning for re-exposure and sufficient information to allow an understanding of the changes made as a result of the earlier exposure.

25. Where applicable, the PIAC will set an effective date for the application of the final international pronouncement. (Ref: Para. A43)

26. For each final international pronouncement, the PIAC issues a separate document explaining its basis for conclusions with respect to comments received on an exposure draft. (Ref: Para. A44)

Withdrawal of an International Pronouncement

27. The PIAC votes on the withdrawal of an international pronouncement, whether that withdrawal is due to the issue of a new or a revised international pronouncement that incorporates or replaces the subject matter of the existing international pronouncement or any other reason, in accordance with the PIAC's terms of reference.

Release of a Final International Pronouncement

28. The senior staff member of the PIAC is responsible for advising the PIOB on whether due process has been followed effectively and with proper regard for the public interest in the development of the final international pronouncement. The Chair of the PIAC's CAG is responsible for advising the PIOB on whether due process relating to the PIAC's interaction with the PIAC's CAG in the development of the final international pronouncement has been followed effectively. (Ref: Para. A45-A46)

29. Before release of a final international pronouncement, the senior staff member of the PIAC obtains the conclusion of the PIOB as to whether due process has been followed effectively and with proper regard for the public interest. This process may involve the PIAC taking further appropriate steps necessary in the circumstances should the PIOB express a negative conclusion about whether due process has been followed. (Ref: Para. A47)

Matters of Due Process

30. If an issue over adherence to due process is raised formally with the PIAC (other than an issue that is clearly frivolous or vexatious), whether by a third party or otherwise, the PIAC assesses the matter and seeks an appropriate resolution. The PIAC's decision on the matter is communicated to the party raising the matter. Alleged breaches of due process and the resolution thereof are communicated by the PIAC to the PIOB. The results of investigations of alleged breaches of due process are reported at a PIAC meeting open to the public. (Ref: Para. A48-A49)

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Working Procedures

General

PIAC Meetings (Ref: Para. 1)

A1. Where practicable, PIAC meetings are broadcast over the Internet or recorded and archived on the IFAC website.

Meeting Agenda Papers (Ref: Para. 2)

A2. Meeting agenda papers are published on the IFAC website ordinarily no later than three weeks in advance of each PIAC meeting. Draft meeting minutes are published on the IFAC website ordinarily within six weeks after each PIAC meeting.

A3. The Appendix of this document lists the unique titles for common PIAC documents at various stages of due process.

A4. Agenda papers are retained on the IFAC website for at least three years from the date of the meeting. Final minutes are retained on the website indefinitely.

A5. Updated project summaries and meeting highlights are posted to the website after each meeting.

Project Identification and Prioritization (Ref: Para. 4)

A6. The PIAC's strategy review involves a formal survey of its key stakeholders to obtain views about issues that they believe should be addressed by the PIAC in the immediate future.

A7. The development of the PIAC's strategy and work program includes the issue of a consultation paper for public comment, placed on the IFAC website where it can be accessed free of charge by the general public, for ordinarily no less than 60 days. The PIAC considers the results of the public consultation in formulating, as necessary, a revised strategy and work program.

A8. The PIAC's strategy reviews and consultations are not anticipated to be an annual process.

Project Commencement

Project Proposals (Ref: Para. 6)

A9. Where the PIAC has a Steering Committee (or equivalent), a proposal to start a new project is first considered by the Steering Committee (or equivalent). As appropriate, the Steering Committee (or equivalent) recommends to the PIAC either that a project proposal be approved or that no new project be initiated at that time. A project proposal identifies, where applicable, who has recommended the project for consideration by the PIAC.

A10. Project proposals identify the objectives of the project and explain how achievement of those objectives would serve the public interest. PIAC members, the PIAC's CAG, and others interested in the development of the proposed pronouncement are thereby provided with a benchmark against which the project can be measured.

Development of Proposed International Pronouncements

Project Task Force (Ref: Para. 7)

A11. A project proposal includes any proposed assignment of responsibility for the project to a Project Task Force. It addresses, where appropriate, specific areas of expertise or geographical representation that may be needed on the Project Task Force. The identification of Project Task Force members focuses on finding the best persons for the job.

A12. A Project Task Force is usually chaired by a member of the PIAC. The senior staff member of the PIAC, in consultation with the Chair of the PIAC, determines the composition of the Project Task Force in a manner that brings the right balance of technical expertise and public interest perspectives to the project discussion, and considers whether there is sufficient direct participation by members of the PIAC on the Project Task Force. Project Task Forces may contain participants, such as external experts, who are not members of the PIAC but have experience relevant to the subject matter. Members of a Project Task Force are identified in the project summaries contained on the IFAC website and in the relevant project agenda papers for a PIAC meeting.

A13. Project Task Force meetings are not open to the public.

A14. A Project Task Force identifies issues, and proposes recommendations, relevant to the development of the proposed international pronouncement on which PIAC input is appropriate. These papers, which are ordinarily accompanied by a draft version of the proposed pronouncement, are developed based on research and consultation, which may include: conducting research; consulting with the PIAC or the PIAC's CAG, practitioners, regulators, national standard setters and other interested parties; and reviewing professional pronouncements issued by IFAC member bodies and other parties.

A15. The papers submitted by the Project Task Force to the PIAC include confirmation that no other significant matters were discussed and agreed by the Project Task Force, in particular in regard to a decision to exclude a significant matter from the proposed draft pronouncement.

A16. The PIAC may carry out projects in cooperation, or conduct projects jointly, with a national standard setter(s) or other organizations with relevant expertise. In the case where a project is to be conducted jointly,[2] a member of the PIAC chairs, or co-chairs, the joint Project Task Force. Where practicable, joint projects are conducted on a multi-national basis whereby two or more national standard setters or national organizations are involved in the joint project.

Public Forum or Roundtable, or Consultation Paper (Ref: Para. 8)

A17. In deciding upon the need to hold a public forum or roundtable or to issue a consultation paper, the PIAC considers whether the subject of the international pronouncement, the level of interest within and outside the profession, the likely or actual existence of a significant and controversial divergence of views, the need for additional information in order to further the PIAC's deliberative process, or some other reason indicates that wider or further consultation would be appropriate.

A18. The outcome(s) of a public forum or roundtable, or the issue of a consultation paper, is summarized and reported to the PIAC, as part of the PIAC's public agenda papers, for purposes of the PIAC's deliberation on the subject under consideration.

Proposed Draft International Pronouncement (Ref: Para. 9)

A19. The Project Task Force recognizes the importance of appropriate liaison with other IFAC Boards and Committees. The Project Task Force raises proactively any amendments proposed in an international pronouncement by the PIAC that may have implications for another IFAC Board or Committee.

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[2] Joint projects are subject to the due process of the PIAC. If exposed separately both internationally and by the national standard setter(s) with whom the project is being jointly developed, and where applicable, PIAC may additionally have regard to comments received by the national standard setter(s), where they may be relevant internationally, and to the extent the process does not result in unnecessary delay in the finalization of the pronouncement. The final pronouncement approved by PIAC becomes a final international pronouncement in the normal way. It may differ from the corresponding document(s), if any, approved by the collaborating national standard setter(s).

Approval of Draft International Pronouncement (Ref: Para. 10)

A20. Where applicable, the PIAC will set a proposed effective date for the application of the pronouncement as part of the exposure draft.

Public Exposure

Exposure Drafts (Ref: Para. 11)

A21. Notice of the issuance of exposure drafts is widely distributed to: regulatory bodies; organizations that have an interest in the pronouncements issued by the PIAC; member bodies of IFAC; and the press. The PIAC considers whether there are any additional broad stakeholder groups to whose attention a proposed pronouncement should be drawn.

A22. The explanatory memorandum may also direct respondents, including those representing specific constituencies such as developing nations, small- and medium-sized practices or the public sector, to aspects of the draft international pronouncement on which specific comments are sought.

Exposure Period (Ref: Para. 12)

A23. Although the exposure period for a draft international pronouncement will ordinarily be no shorter than 90 days, a shorter or longer exposure period may be set when considered appropriate. A longer exposure period may be set, for example, where complex or pervasive changes might affect translation or to make wider consultation possible. A shorter exposure period may be set, for example, where in the public interest there is a need to conclude on a matter more quickly, the exposure draft is relatively simple or short, or where the PIAC decides to re-expose all or only part of a draft international pronouncement.

A24. Exposure drafts indicate that the PIAC cannot undertake to consider comments and suggestions received after the close of the exposure period.

Comments Received (Ref: Para. 13)

A25. An acknowledgement of receipt is sent to every respondent to an exposure draft.

A26. PIAC members, their technical advisors, PIAC observers, and Project Task Force members who are not members of the PIAC are notified when comment letters have been made available on the IFAC website.

A27. The exposure draft and comment letters are made available for the reference purpose of PIAC members at the PIAC meeting in which the project is scheduled for discussion.

Consideration of Respondents' Comments on an Exposure Draft

Comments Received on Exposure (Ref: Para. 14)

A28. The comments and suggestions received within the exposure period are read and considered by the Project Task Force.

A29. Project agenda papers contain a cumulative summary of the significant decisions made by the PIAC on matters relating to the project, including its position on the significant issues raised in comment letters.

Deliberation of Significant Matters (Ref: Para. 15)

A30. The PIAC does not enter into debate with respondents on individual comment letters. The PIAC may decide, however, to discuss a letter of comment with the respondent to seek clarification on a matter.

A31. For comments received from members of the Monitoring Group,[3] if and as requested, the PIAC will explain to them the reason(s) for not having accepted their proposals. The nature and outcome of such discussions are reported and recorded in the minutes of the PIAC meeting at which the related project is discussed.

Interaction with the PIAC's Consultative Advisory Group

Development of an International Pronouncement (Ref: Para. 18)

A32. All stages in the development of an international pronouncement are taken through the PIAC's CAG to provide an opportunity for issues to be exposed and insight to be gathered. In consulting with the PIAC's CAG, the PIAC may bring forward significant issues on which it seeks the input of the PIAC's CAG. The PIAC's CAG is also afforded the opportunity to bring forward matters for consideration by the PIAC. Significant points arising in PIAC's CAG discussions are included in the minutes of the meeting of the PIAC's CAG.

A33. The meetings of the PIAC's CAG are attended by the Chair of PIAC and the senior staff member of the PIAC and, where appropriate, by a representative of the Project Task Force, usually the chair.

Report Back (Ref: Para. 19)

A34. Minutes of the meetings of the PIAC's CAG, or a draft thereof, relating to significant points arising in the PIAC's CAG discussion on a draft international pronouncement are sent to the relevant Project Task Force for consideration. The Project Task Force produces a "report back" document for the PIAC's CAG, referring to each item noted in the PIAC's CAG minutes and commenting as to whether a point has been accepted or not by the PIAC, and if not the reasons. While the "report back" document addresses the points made in relation to each item noted in the PIAC's CAG minutes, it is not intended that there be a reconciliation in the "report back" of every view on every point. Each "report back" is discussed at a subsequent meeting of the PIAC's CAG. The conclusion of this discussion is recorded in the minutes of the PIAC's CAG meeting.

[3] The Monitoring Group includes the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors, the International Organization of Securities Commissions, and the World Bank. The International Forum of Independent Audit Regulators is an observer.

A35. The "report back" documents and the discussion by the PIAC's CAG on them result in a rolling-check on whether significant comments received through the consultation with the PIAC's CAG during the development of a draft international pronouncement have been brought to the PIAC's attention. Nevertheless, on the occasion on which the PIAC's CAG plans to discuss a draft international pronouncement for the last time before it goes to the PIAC for final approval, the PIAC's CAG is asked to advise, based on minutes of previous meetings, whether it is satisfied that the PIAC has consulted it on, and has considered its comments in relation to, the development and finalization of the international pronouncement. The conclusion of this discussion is recorded in the minutes of the PIAC's CAG meeting.

Approval of a Pronouncement, and Consideration of the Need for Re-Exposure

Adherence to Due Process (Ref: Para. 21)

A36. The senior staff member provides a written report in the agenda papers of the meeting outlining the basis for concluding whether due process has been followed with respect to actions up to the date of the meeting.

A37. The senior staff member also reports to the PIAC whether due process has been followed during the meeting at which a final international pronouncement is approved for issue. The substance of this report is recorded in the minutes.

Approval (Ref: Para. 22)

A38. The results of voting, including dissenting votes and the reason(s) therefore, on the approval of the revised content of an exposure draft are recorded in the minutes of the meeting.

A39. The agenda paper containing the draft proposed revised content of exposed international pronouncement is updated for changes agreed by the PIAC during the course of the meeting and is posted to the IFAC website after the meeting at which the PIAC approves the final international pronouncement. The updated agenda paper posted to the IFAC website is for information purposes only and is not the final pronouncement. The final pronouncement is that approved by the IAASB and published by IFAC after the PIOB has confirmed that due process was followed in its development.

Re-Exposure (Ref: Para. 23)

A40. When an exposure draft has been subject to many changes, a summary comparative analysis is presented to the PIAC. This analysis shows, to the extent practicable, the differences between the exposure draft and the proposed final international pronouncement.

A41. The senior staff member of the PIAC, in consultation with the Chair of the PIAC and chair of the Project Task Force, advises the PIAC on whether a draft international pronouncement, or part thereof, needs to be re-exposed.

A42. Situations that constitute potential grounds for a decision to re-expose may include, for example: substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the PIAC before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the PIAC; or substantial change to the substance of a proposed international pronouncement.

Effective Date (Ref: Para. 25)

A43. In setting the date for the application of an international pronouncement, the PIAC considers the reasonable expected minimum period for effective implementation, including the need for translation into national languages.

Basis for Conclusions (Ref: Para. 26)

A44. The document explaining the PIAC's basis for conclusions with respect to comments received on an exposure draft is circulated to the PIAC for comment and is issued after clearance by the Chair and senior staff member of the PIAC. The issue of the document is not subject to voting approval by the PIAC and therefore does not constitute part of the final international pronouncement and is non-authoritative. It is retained for an indefinite period on the IFAC website.

Release of a Final Pronouncement

Adherence to Due Process (Ref: Para. 28)

A45. The senior staff member of the PIAC provides the PIOB with a written report outlining the basis for the conclusion on whether due process has been followed.

A46. The Chair of the PIAC's CAG provides the PIOB with a written report outlining the basis for the conclusion on whether due process relating to the PIAC's interaction with the PIAC's CAG in the development of the final international pronouncement has been followed. In forming this conclusion, the Chair of the PIAC's CAG considers the conclusion of the PIAC CAG's discussion described in paragraph A35, and whether significant comments received at the last meeting of the PIAC's CAG, as recorded in the minutes, or draft minutes, of the meeting, have been brought to the PIAC's attention. For this purpose, the senior staff member of the PIAC prepares, at the conclusion of the meeting at which the PIAC approves a final pronouncement, a "report back" document (as described in paragraph A34) together with other relevant documents as may be necessary for consideration by the Chair of the PIAC's CAG.

Final Pronouncement (Ref: Para. 29)

A47. Subject to any concern received from the PIOB upon its review of due process applied in the development of the final international pronouncement at its earliest meeting after receiving the report of the senior staff member, the final pronouncement, together with the separate document explaining its basis for conclusions with respect to comments received on an exposure draft, will be posted to the IFAC website.

Matters of Due Process (Ref: Para. 30)

A48. Where the PIAC has a Steering Committee (or equivalent), the Steering Committee (or

equivalent) assesses issues raised over due process and obtains relevant information from all parties involved. The Steering Committee (or equivalent) brings the issue to the attention of the PIAC with a recommendation on whether the alleged breach has merit and, if so, an appropriate resolution.

A49. The PIAC reports annually on whether it has complied with due process during the period.

Appendix

List of Unique Titles for Common PIAC Documents at Various Stages of Due Process Project Commencement

Proposal to start a new project:

- "[Title of Project]—[PIAC] Project Proposal"

Development of Proposed International Pronouncements

Agenda papers prepared for the PIAC's review and debate addressing issues in the course of the development of a proposed international pronouncement:

- "[Title of Project]—Issues and [PIAC] Task Force Proposals dated [MM/YY]"

Draft versions of a proposed pronouncement accompanying such agenda papers:

- "[Title of Project]—Draft Pronouncement dated [MM/YY]"
- "[Title of Project]—Draft Pronouncement dated [MM/YY] Showing Changes from Draft dated [MM/YY]"

Consultation papers issued to solicit views on a matter under consideration:

- "[Title of Project]—[PIAC] Consultation Paper dated [MM/YY]"

Consideration of Respondents' Comments on an Exposure Draft

Agenda papers addressing the significant issues by respondents on an exposure draft:

- "[Title of Project]—Summary of Significant Comments on Exposure and [PIAC] Task Force Recommendations dated [MM/YY]"

Agenda papers prepared for subsequent PIAC meetings that outline the Project Task Force's response to the PIAC's consideration of significant comments on exposure:

- "[Title of Project]—[PIAC] Task Force Recommendations dated [MM/YY] in Response to [PIAC's] Consideration of Significant Comments on Exposure"

Draft versions of a proposed pronouncement accompanying such agenda papers follow the format described above.

Agenda papers setting out the main differences between an exposure draft and the proposed final international pronouncement, when the exposure draft has been subject to many changes:

- "[Title of Project]—Comparison of Exposure Draft and Draft Pronouncement dated [MM/YY]"

Approval of a Final Pronouncement

Document posted to the IFAC website after the meeting at which the PIAC approves the final international pronouncement showing final changed agreed by the PIAC:

- "[Title of Project]—Final Draft Pronouncement dated [MM/DD/YY] Showing Changes from Draft dated [MM/DD/YY]: As Approved by [PIAC] for Submission to PIOB"

Release of a Final Pronouncement

Final pronouncement:

- "[Title of Pronouncement]"

Document explaining the PIAC's basis for conclusions with respect to comments received on an exposure draft:

- "[Title of Pronouncement]—Significant Comments on [PIAC] Proposals and Basis for Conclusions Thereon"